Spotlight On Retirement

INDIA

ASIA RETIREMENT SERIES

SOCIETY OF ACTUARIES®

LIMRA Secure Retirement INSTITUTE®

Spotlight on Retirement: India

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Executive Summary

India is going through a rapid transition, with another expected to follow. Currently, it is getting younger very quickly, and it is also expected to age quite rapidly after that. While India is positioned for an economic boom, it will need to be nimble in preparing for an aging society.

The overall population of India is likely to grow by 27 percent between 2015 and 2050. During the same period, however, the age 60+ population will grow by 171 percent and significantly outpace total population growth. The proportion of the elderly (age 60+ population) is likely to nearly triple from 2015 to 2050, increasing to 317 million.

The ratio of workers supporting each person age 65+ will steadily deteriorate between 2000 and 2050, from 13.8:1 in 2000 to 5:1 by 2050. This means there will be fewer than five people in the labor force supporting every person age 65 and over. By the end of this century, the ratio is estimated to gradually worsen further to 2.3:1.

Despite the recent reforms undertaken by the government, a majority of the population has not yet been covered by pensions that are comprehensive and provide adequate replacement income. That's possibly the reason why India is ranked so low by the Allianz Pension Sustainability Index. Although India has made a good start, a lot still needs to be done.

Insights from the study indicate that 63 percent of the respondents consider it their own responsibility to fund retirement; this figure is especially high among the respondents from the Eastern and Western parts of India where almost 7 out 10 respondents owned up to that responsibility. Even though 96% percent of the respondents said they will depend on their personal savings and investments, 58 percent of them regret delaying saving for retirement OR have not started saving for retirement at all, suggesting they will not be able to save enough for retirement.

These findings paint a grim picture. Among the respondents, 75 percent fear they will have a gap in retirement funds when they turn age 60, and only around 25 percent of the respondents expect to have more than 81 percent of the funds required to lead a comfortable retired life. Despite this anticipated retirement-funding gap, most respondents do not seek professional help.

The only silver lining is that 86 percent across India stated that they are willing to convert a portion of their assets to annuities to generate retirement income; this proportion is significantly higher than the 71 percent average for the Asia markets, including India, covered in this study. It clearly underlines the huge untapped potential for the financial services Industry. Consumers showed a strong preference for more conservative product features — features that would give them guaranteed income for life, predictable returns, and help preserve capital. In addition, some of them would like to have products with tax benefits and income that is adjusted for inflation.

Banks emerged as the most popular channel from which to buy retirement income products. In fact, across all markets of Asia, banks were selected as the top distribution channel.

Introduction

India is going through a rapid demographic and economic transition. While its economy is growing rapidly, its population is expected to shift from young to aged at an unprecedented rate. India needs to prepare well to manage the challenges of supporting its elderly population in retirement.

India, with a population of almost 1.33 billion, is the second-most-populous country in the world after China, which has a population of almost 1.41 billion. Over the last two decades India has gone through major transitions — economically and socially, as well as demographically. Since opening its economy to foreign investments in the early 1990s, the Indian economy has been on an upward trend, even though it has had its share of ups and downs. Of late, it has emerged as one of the fastest-growing major economies, along with China.

Compared to some of the other Asian markets, India has a much younger population. In 2015, the median age stood at 26.7 years, compared to 46.3 years in Japan or 37 years in mainland China. India is currently becoming a nation where a majority of the population is of working age. That is a phase where the economy generally grows the fastest, provided it has supporting government policies.

However, the shift from a younger to an older population will come quickly, and India's demographics will more closely resemble other Asian markets. Moreover, because of the sheer size of its population, India needs to prepare especially well. Otherwise, it would face challenges like a shrinking workforce, higher dependency of the elderly on the working-age population, and slowdown of economic growth — all factors that are likely to put immense pressure on future pension systems.

Other social and economic changes could further aggravate the challenges related to retirement funding. While India enters a phase of greater economic growth, more and more of the younger population is likely to relocate to urban areas, affecting traditional social structures across the country. Urbanization will have an impact on how people spend their retired lives. As in other Asian markets, a significant portion of Indians have been dependent on family and their children for funding their retirement as well as for care. However, with more and more urbanization, the average size of households would continue to shrink and the elderly could possibly be left alone to manage for themselves.

There needs to be a comprehensive, adequate, and sustainable retirement and pension system, one that can help support the future financial needs of today's pre-retirees.

This study is designed to identify how India's consumers are planning to manage their current or upcoming retirement challenges and what their aspirations are. The study is an extension of the earlier research on China retirement from 2015 – 16, a collaboration between the Society of Actuaries (SOA) and LIMRA aimed at identifying the challenges faced by other major markets across Asia.

About the Survey

The India retirement research study is a part of the Asia Retirement Series that is a collaborative research project of the Society of Actuaries and LIMRA. The larger study aims to provide consumers' perceptions of retirement across nine major Asian markets including Hong Kong, India, Indonesia, Japan, Singapore, South Korea, Taiwan, Thailand, and China, with a total sample of 9,384 respondents. The first study in the series covered mainland China. This study on India aims to identify consumer retirement perceptions through an online survey of 2,000 respondents.

This report provides consumer perception of retirement across different regions of India. The study targets to cover three age segments: young workers (30–45 years), pre-retirees (46–60 years), and retirees (age 60+ years). Young workers are essentially at an early stage of their careers and planning for marriage or starting a family; pre-retirees are gradually approaching retirement and planning to start saving for comfortable retirement; and retirees are retired or are likely to retire soon.

The data were collected online across all markets. This study is designed to identify the attitudinal differences across regions, sub-regions, age bands, and genders to help insurers and other financial organizations prepare effective solutions to address future consumer needs. The study also highlights consumers' retirement readiness, current and future income sources, risk tolerance, and preference of products and products features.

The study covered a sample of 2,000 respondents across five sub-regions of India to understand the population's diversity (Table 1). Since the focus was to gather a sample representative of the target market for insurers and other financial institutions, the study covered multiple sub-regions and income levels (see the Appendix).

The study also included quotas based on income levels and other parameters to ensure enhanced quality of data. In certain instances the consumer research data refer to "Asia," using an unweighted average of the nine markets covered in the study. In some instances, the data refer to eight markets when a question or option was not covered in the earlier wave of the China study.

Table 1 — Overall Sample Split Across India: Sub-region

Sub-region	Sample
East India	400
West India	400
North India	400
South India	400
Central India	400
TOTAL	2000

Source: LIMRA-SOA Retirement Study, 2018.

Table 2 — Overall Sample Split Across India: Age Band

Age Band	Sample
Young workers: 30-45	686
Pre-retirees: 46-60	658
Retirees: 61-75	656
TOTAL	2000

Source: LIMRA-SOA Retirement Study, 2018.

Table 3 — Overall Sample Split: Gender

	Sample
Male	839
Female	1,161
TOTAL	9,384

Source: LIMRA-SOA Retirement Study, 2018.

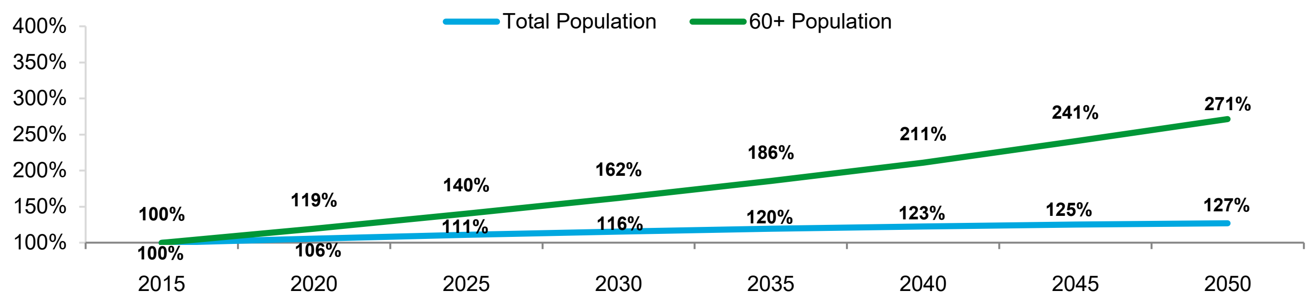
Demographic Transition

YOUNG TO AGING POPULATION

India is currently the second most populous country in the world, just behind China. In 2017 India had a population of around 1.3 billion, followed by 1.4 billion in China, and it is likely to overtake China as the most populous country by 2024. In addition, India has also emerged as one of the youngest major economies, not only across Asia but across the world as well. The median age of the Indian population in 2015 was 26.7 years, compared to 46.3 of Japan, 40.3 of Korea, and 37.0 in mainland China.

India appears poised for a huge demographic advantage over its Asian counterparts. However, to convert this demographic advantage to a "demographic dividend,"[1] it needs to take a number of steps: take action to create jobs, improve the education system to create employable labor, improve female labor participation, and deploy policies to support economic growth.

Figure 1 — Overall Population Growth Versus Age 60+ Population Growth*



**The overall population growth and growth of age 60+ population has been rebased to 2015. Data accessed 2017.*

Source: UN Population Division — 2017, LIMRA International Research.

The growth of the elderly population is outpacing the growth of the overall population by a stunning margin.

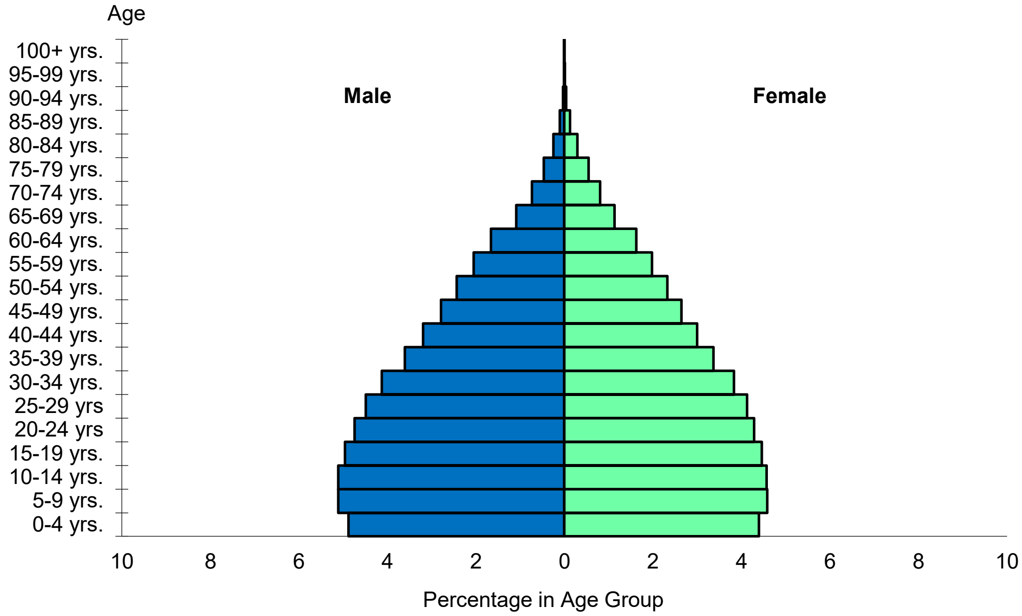
Having a youthful working-age population should be a reason for optimism. Yet some caution is needed. Between 2015 and 2050, the overall population of India is likely to grow by 27 percent. However, during the same period, the age 60+ population will grow by 171 percent, significantly outpacing the total population growth by a stunning margin. This anticipated trend suggests that the proportion of the elderly in the overall population will increase rapidly, and the nation could gradually lose its demographic advantage.

Medical advances and improved lifestyle will contribute to the prolonged life expectancy of the overall population, and the age structure of the population will experience a massive shift.

The population pyramids illustrate the distribution of various age groups in India by gender across 2015, 2030, and 2050 and show the generational shift — indicating the necessity of preparing to address the challenges of a rapidly aging population.

[1] "Demographic dividend" usually refers to the potential economic growth resulting from a change in population age structure. *Shaping The Future: How Changing Demographics Can Power Human Development*, 2015. Thangavel Palanivel, et al.

Figure 2 — Population Pyramid: 2015

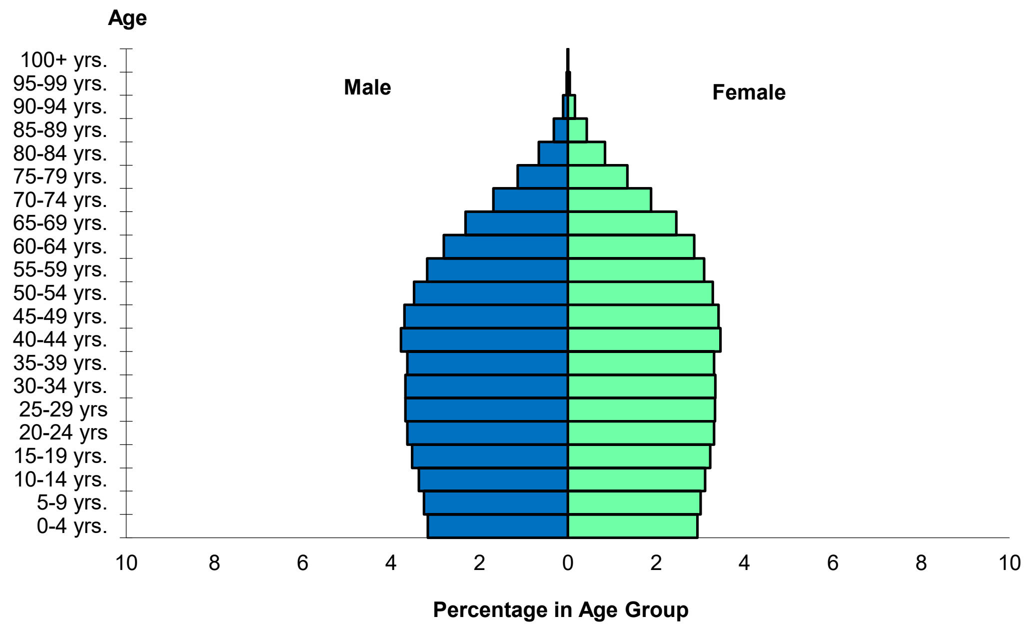


Source: UN Population Division — 2017 data, LIMRA International Research.

Figure 3 — Population Pyramid: 2030

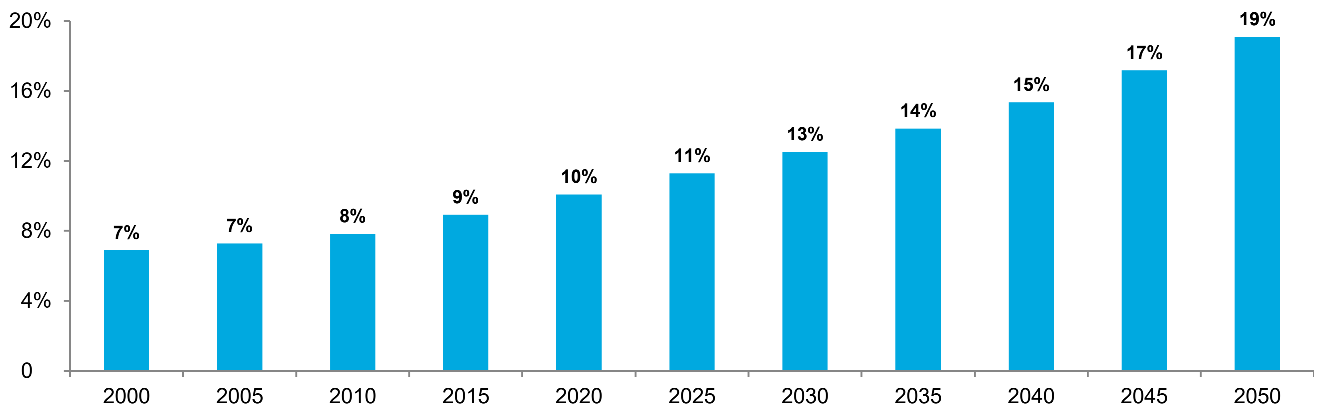
Source: UN Population Division — 2017 data, LIMRA International Research.

Figure 4 — Population Pyramid: 2050



Source: UN Population Division — 2017 data, LIMRA International Research.

Figure 5 — Proportion of Age 60 Years and Over Among Total Population



Source: UN Population Division — 2017 data, LIMRA International Research.

By 2050, the proportion of the elderly (age 60+) is likely to increase almost three times since its level at the turn of the century.

As the population structure of India changes, the proportion of the elderly is also going to change. By 2050, the proportion of the elderly (age 60+) is likely to likely to increase almost three times since its level at the turn of the century. Further, as stated earlier, it is outpacing the growth of the overall population, strongly suggesting a shift will be rapid.

The pace of aging cannot be calculated in isolation; it needs to be looked at objectively and in relation to other factors. The age bands in Figure 6 are:

- Young — When the proportion of those age 60 and over crosses 7 percent of the total population
- Aging — When the proportion of those age 60 and over crosses 14 percent of the total population
- Aged — When the proportion of those age 60 and over crosses 21 percent of the total population
- Super-aged — When the proportion of those age 60 and over crosses 28 percent of the total population

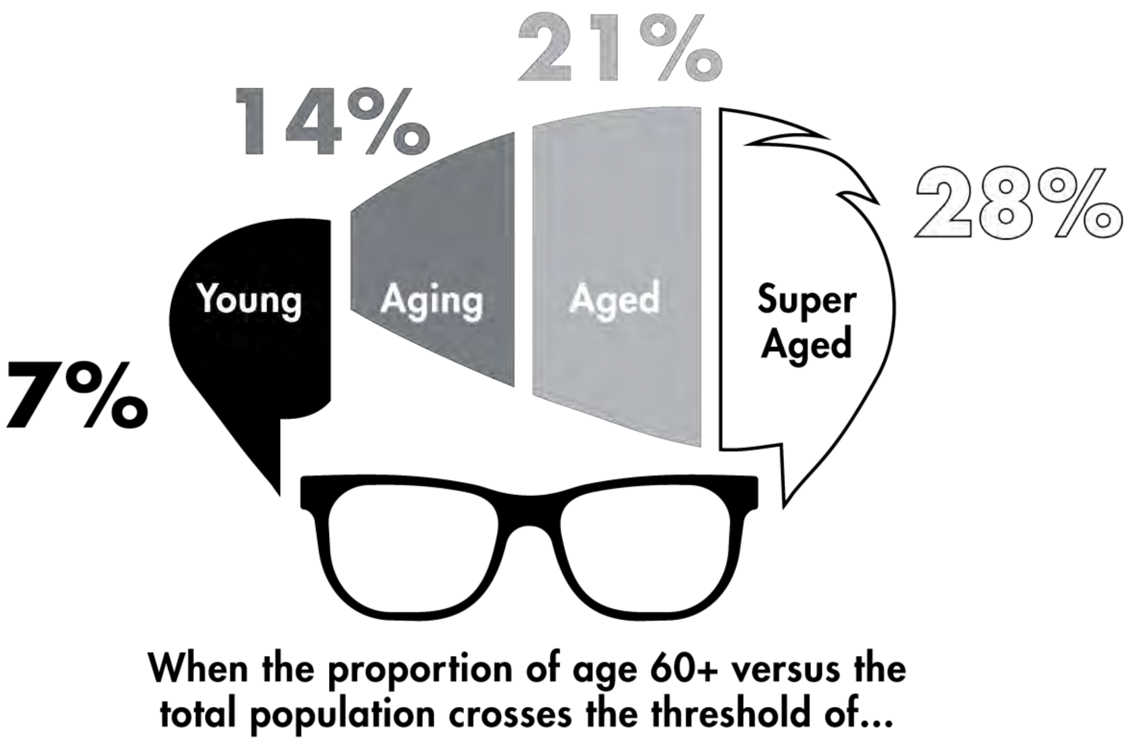
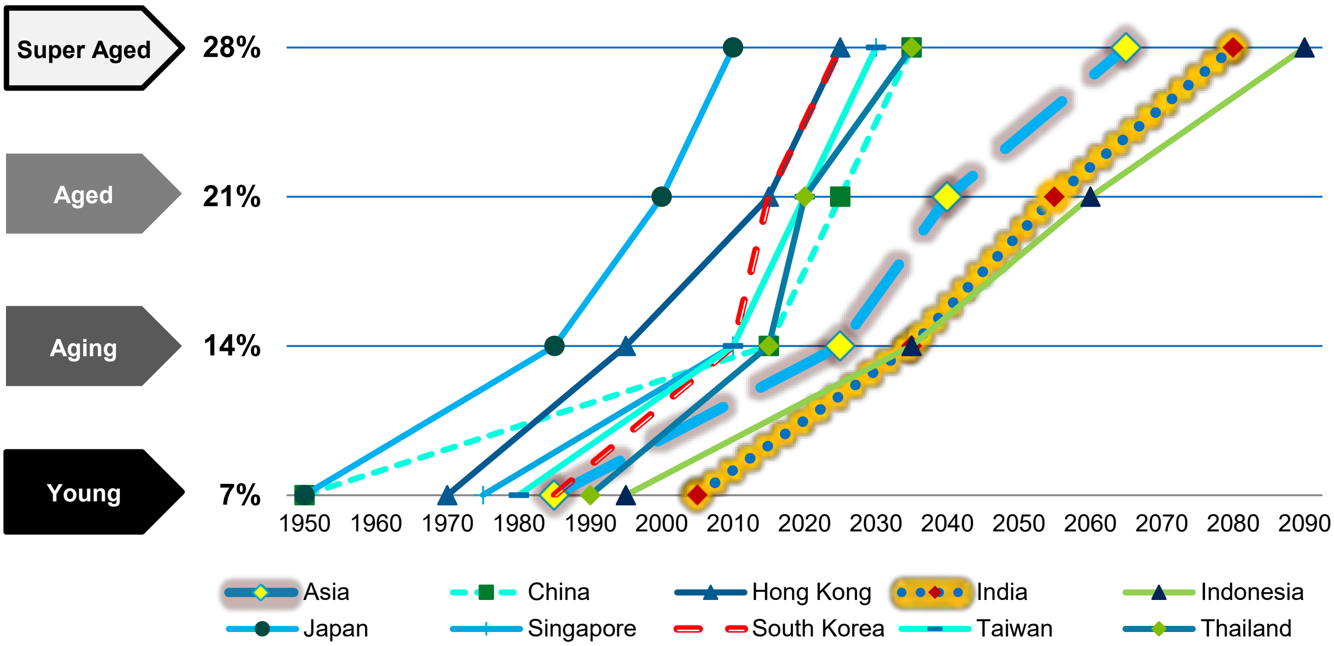


Figure 6 — Phases of Demographic Transition

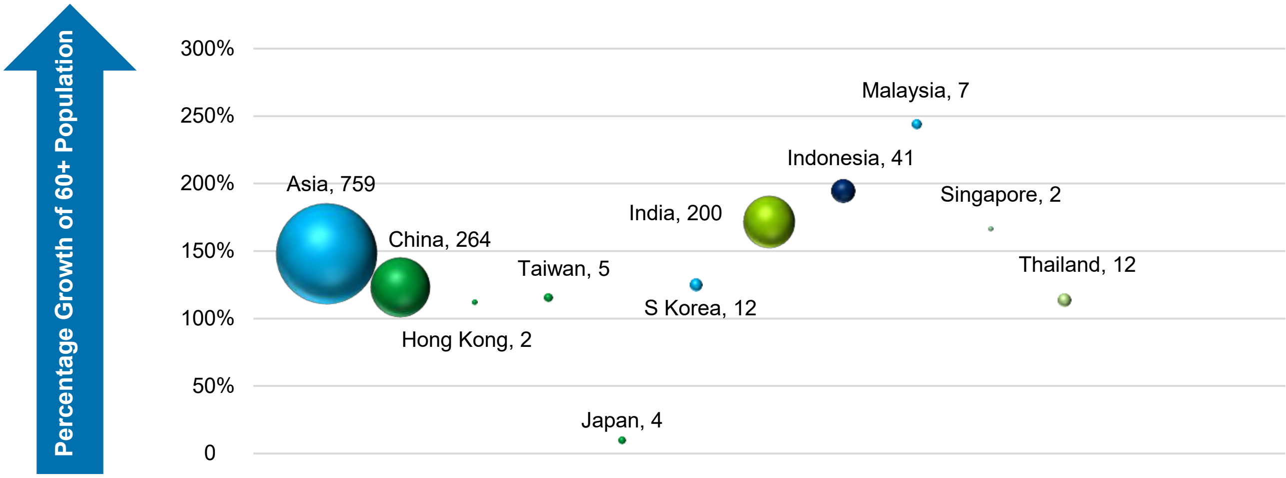


UN Population Division — 2017 data, LIMRA International Research.

To better understand the magnitude of the transition, the study compared it with other developed Western countries and a few other Asian markets that had possibly started the process of aging earlier. The U.K. and U.S. markets are forecasted to move from aging to super-aged within a span of around 80 years. However, for India it will take only 45 years to move from aging to super-aged. In fact, India is likely to move from young to aging within 30 years, a pace much quicker than the Asia average of 40 years. The more developed markets of the United Kingdom and the United States had much more time to prepare for an aging population, and still have not managed to be adequately prepared. On the other hand, India as a market is still in a growth stage, while the U.S. and U.K. markets are mature.

It is important to note that a significant proportion of the future elderly population, especially the new elderly across Asia, will reside in India. The elderly population of India will rise from 117 million in 2015 to 317 million in 2050, which is an increase of almost 200 million in just 35 years.

Figure 7 — Additional Age 60+ Population in 2050 Versus 2015



Size of bubble represents absolute increase in age 60+ population (in millions).

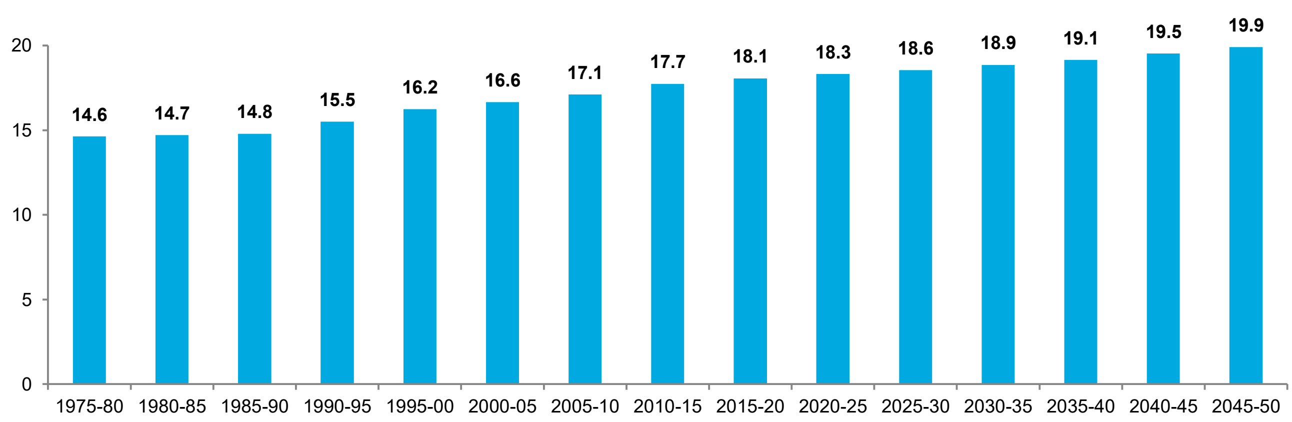
UN Population Division, 2017 data, LIMRA International Research.

LIFE EXPECTANCY, BIRTH RATES, AND POTENTIAL SUPPORT RATIO

A rising life expectancy is also adding to the growth in the number of elderly. Over the last few decades, life expectancy has increased and may continue to increase as a result of many factors. Along with a decline in both communicable and non-communicable diseases, these include medical advances, improved lifestyle, and the ability to afford healthcare.

Over the years, the life expectancy of the elderly population has increased gradually. Life expectancy at age 60 years in 1975 – 80 was 14.6 years. It is likely to reach 19.9 years by 2045 – 50 from 17.7 years in 2010 – 15. With increased access to medical facilities and rising penetration of health and medical insurance, it may increase at a slightly more rapid pace in the future.

Figure 8 — Life Expectancy at Age 60 (in Years)



UN Population Division — 2017 data, LIMRA International Research.

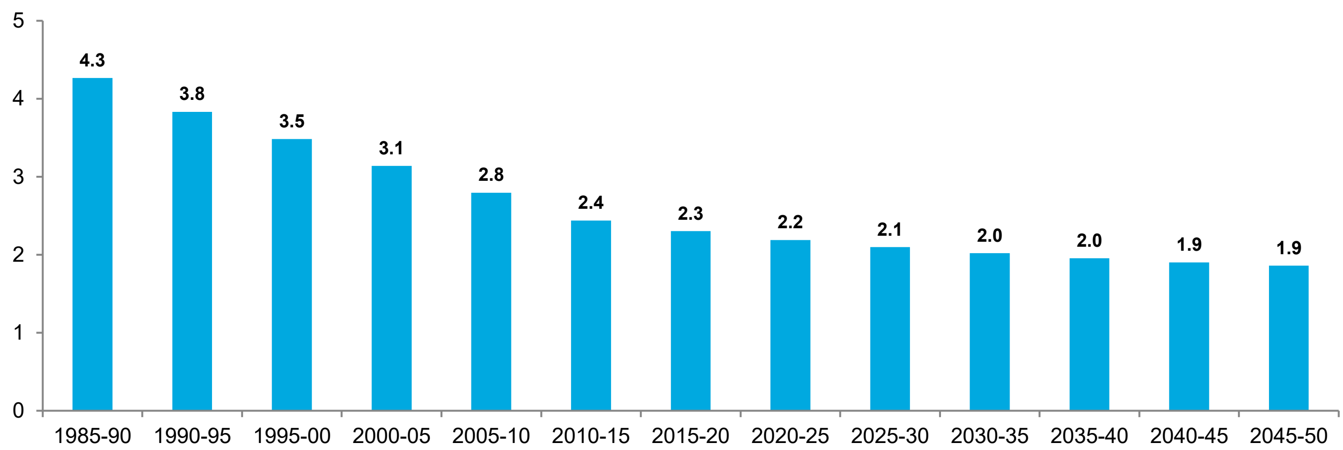
In the last few decades of the 20th century, India experienced a high birth rate coupled with a high death rate. It is now gradually going through a classic demographic transition. With gradual economic growth, the population has slightly greater access to medical facilities, which may reduce the incidence of early death and lead to prolonged life spans. Further, after a prolonged period of lower death rates, a decline in birthrate may follow, as the population is likely to feel the economic burden of supporting larger families. Lower birthrate leads to a decline in population growth, a possible aging of the population, and, in the longer run, a decline in overall population.

India is going through a similar cycle. The death rate of India per 1,000 declined from 26.8 in 1950 – 55 to 7.3 in 2010 – 15, which was followed by a declining birthrate from 4.3 in 1985 – 90 to 2.4 in 2010 – 15. This contraction coincided with the opening up of the Indian economy in the early 1990s that triggered a cycle of economic growth. The trend of declining birthrate is likely to continue, and by 2045 – 50 it may reach levels of 1.9. It also must be noted that to maintain a constant level of population, the fertility rate must be at least 2.1.

If this minimum rate of 2.1 is not maintained, the population is likely to decline in the long term. Typically, the combination of a plummeting birthrate, a decline in the death rate, and an increase in life expectancy triggers a shift to an aging population. The declining fertility rate will contribute significantly towards the growth of the elderly population in India and a decline in the total population beginning in 2063.

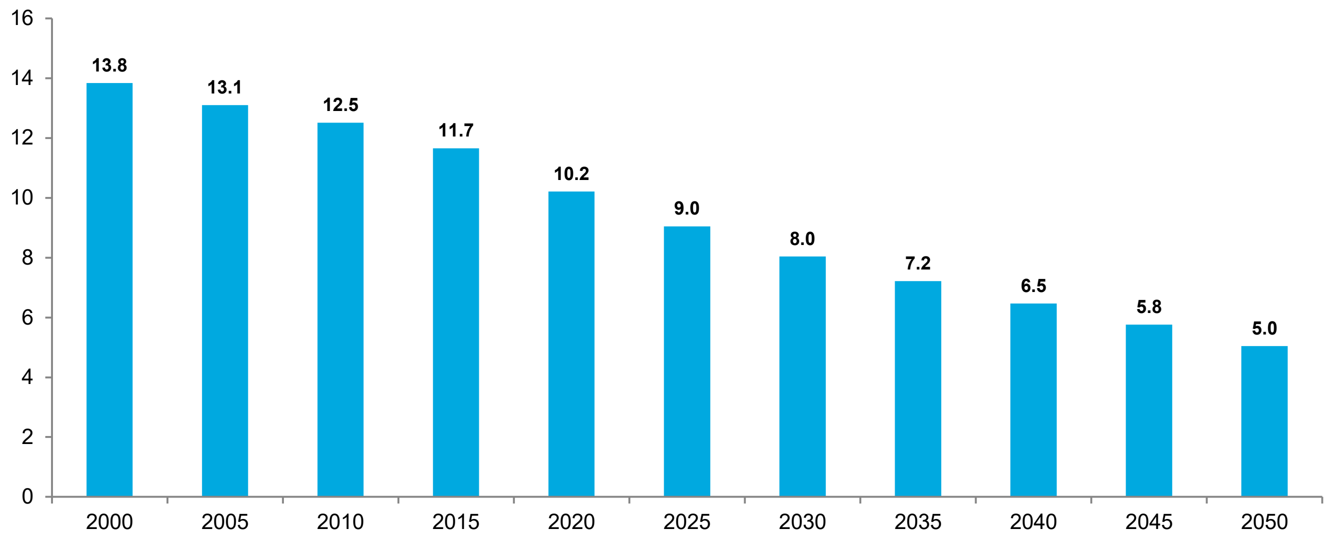
Declines in birth and death rates, along with rising life expectancy, will trigger population aging.

Figure 9 — Total Fertility (Live Births per Woman)



UN Population Division — 2017 data, LIMRA International Research.

Figure 10 — Potential Support Ratio



Note: Potential support ratio = ratio of population age 15 – 64 per population of age 65+.

UN Population Division — 2017 data, LIMRA International Research.

The potential support ratio indicates that the responsibility of supporting the needs of the elderly population is likely to increase in relation to the younger working-age population. The potential support indicates a steady and constant decline between 2000 and 2050. In fact, the ratio is likely to decline to 5:1 by 2050 from 13.8:1 in 2000. This means, in future, there will be fewer than five people in the labor force supporting every person age 65 and over. This is likely to pose tremendous challenges to the nation's health, retirement, and pension systems, which to a large extent are not mature enough to handle a crisis scenario.

Other social and economic changes could further aggravate the challenges related to retirement funding. While India enters a phase of greater economic growth, more and more of the younger population is likely to relocate to urban areas, affecting the traditional social structure across the country. As in other Asian markets, a significant portion of Indians have been dependent on family and their children for funding their retirement, as well as for care. This phenomenon is evident in the fact that the average size of households is declining from 5.4 members per household in 2000 to a projected 4.3 members per household by 2025.[2] Even though the elderly could still be supported financially by their children through remittances or other methods, a lot of geriatric needs will remain unmet.

[2] Timetric Data 2017.

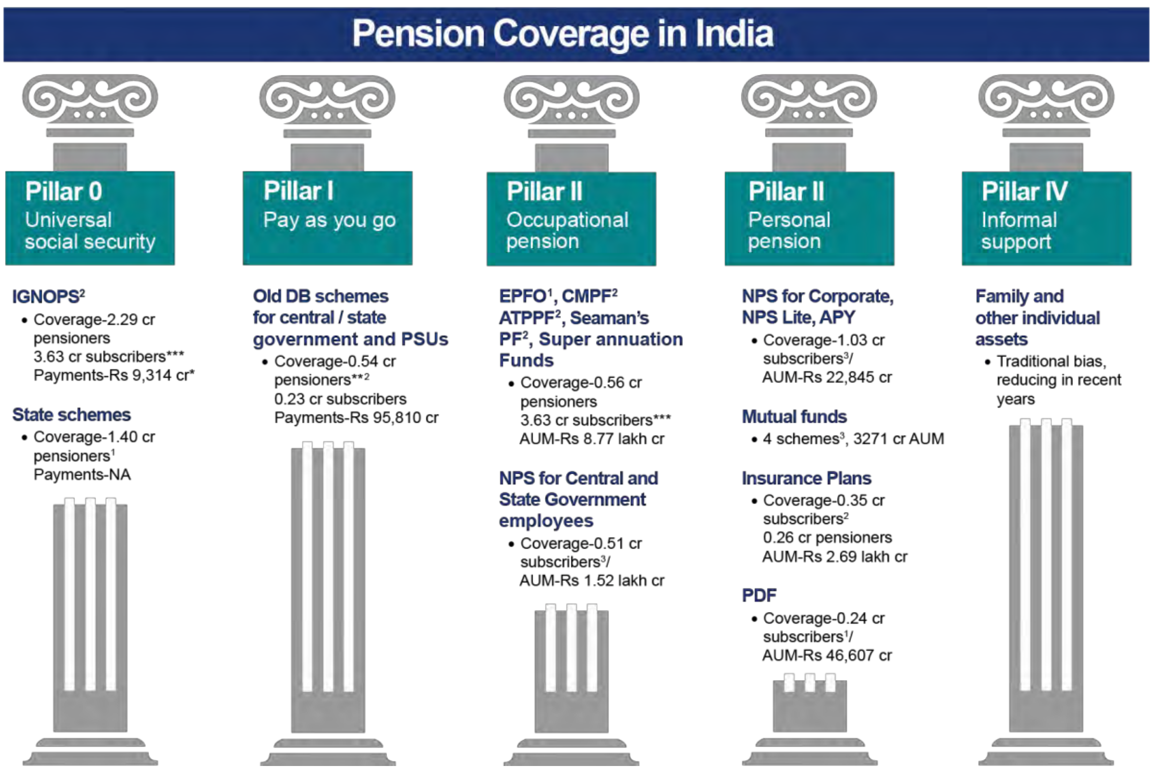
KEY CHALLENGES DUE TO THE AGING OF THE POPULATION

- Socioeconomic challenges due to aging will become more and more pronounced. Population aging combined with rising longevity, declining morbidity, and medical-care inflation risks will pose immense challenges.
- Even though India's young population will continue to grow in the next few decades, the economic implications of a longer-term decrease in the labor force cannot be ignored.
- The demand for healthcare, long-term care, and pension provisions will definitely be on the rise and clearly highlight the increasing importance of preparing for retirement through the availability of pensions, personal savings, and healthcare assistance.
- As an economy ages, it needs to prepare itself for its unique challenges with customized insurance products in the life protection, savings, pensions, and health segments. These impending challenges present a huge opportunity for the insurance industry going forward, as the country starts preparing for an aging population.

Current Pension Structures and Challenges

The Indian economy is on an uptrend and is currently the seventh-largest economy in the world. By 2050 it is likely to grow further and become the one of the top-five largest economies in the world, behind China.[3]

However, when it comes to the pension and retirement market, India's structure is highly fragmented and varies based on an individual's occupation and type of employer. A lot more needs to be done to broaden its coverage and make it comprehensive and adequate. Some of the key sources of Indian retirement income are:



Source: Financial Security for India's Elderly, CRISIL and PFRDA, April 2017.

**Payments made under NSAP.*

***Data does not include Old DB scheme for State Government Employees, PSU employees.*

****Includes 3.49 crore active subscribers of EPFO.*

 # Includes state schemes across 19 states.

1 Data for March 2015.

2 Data for March 2015.

3 Data for March 2017.

NA-Not Available.

[3] https://www.weforum.org/agenda/2017/03/worlds-biggest-economies-in-2017/ Date accessed 2017.

NATIONAL PENSION SCHEME

The Indian Government established the Pension Fund Regulatory and Development Authority (PFRDA) in 2003 with the purpose of developing and regulating the country's pension sector. The National Pension System (NPS) was launched on 1 January 2004 to provide a retirement income option to all its citizens, including non-resident citizens residing in a foreign country. NPS is primarily a voluntary, defined contribution retirement savings scheme designed to enable the subscribers to save systematically during their working lives as a way to fund retirement. NPS was initially introduced for new government employees; however, later in 2009 it was rolled out to all Indian citizens, within both the organized and unorganized sectors, on a voluntary basis. This scheme is open to all Indian citizens between the ages of 18–60 years initially. The age-60 cap was later extended to age 65.

During the Union budget of 2010 – 11, the government launched a co-contributory pension scheme, "*Swavalamban Scheme*," within the NPS to encourage the unorganized sector to save for retirement. In order to boost contributions from the unorganized sector the government had earlier decided to contribute a sum of INR1,000 to each NPS subscriber who contributed a minimum of INR1,000 and maximum INR12,000 per annum within FY 2016 – 17. This scheme was open to all Indian citizens between ages 18–60 years, who do not have the benefit of employee pensions after retirement. Since this scheme was not well accepted, it was closed at the end of March 2016 and replaced by "*Atal Pension Yojana*."

The objective of NPS was to provide easy access to pensions to the larger population through Points of Presence (POP), which are the first points of contact of the NPS subscriber. The subscriber needs to open a portable and unique Permanent Retirement Account Number (PRAN), which remains unchanged throughout the subscriber's life. Point of Presence Service Providers (POP-SPs) offer customer service to the NPS subscribers.

The PFRDA has currently authorized around 58 institutions to act as Points of Presence (POPs). These include public banks, private banks, private financial services company, and the Postal Department. The Central Recordkeeping Agency (CRA) was also created to provide primary recordkeeping, administration, and customer service functions for all subscribers.

In addition, Annuity Service Providers (ASPs) were nominated by the government to be responsible for converting lump-sum distributions of the accountholders into annuities and for providing regular monthly pension payments to retired subscribers. Seven pension funds managers have also been assigned who are responsible for managing the investment of the funds.

The NPS essentially constitutes of two types of accounts, Tier I and Tier II.

- **Tier I**
  - Tier I is the primary account that accumulates savings for retirement. The subscriber must make a minimum total contribution of INR6000 annually and a minimum single annual contribution of INR500.
  - A Tier I account offers a tax benefit on contributions.
  - A Tier I account is a prerequisite for a Tier II account.
  - Tier I withdrawals are restricted: Upon retirement, subscribers must convert a minimum 40 percent of the accumulated savings to buy a life annuity from an approved Annuity Service Providers (ASPs). Upon resignation, the subscriber must annuitize 80 percent of account funds; the remainder can be withdrawn. If subscriber dies before retirement, total available account funds are given to the nominee.

- **Tier II**
  - — Tier II accounts are voluntary, and there is a withdrawal option. The subscriber must make a minimum total contribution of INR2,000 annually and a minimum single annual contribution of INR250.
  - — Tier II accounts do not offer a tax benefit.[4]
  - — Subscribers of Tier II accounts can make withdrawals at any time. However, the subscriber needs to make a separate application to the POP-SP (Point of Presence-Service Providers). The available withdrawal amount may vary and depend on the current value of the investments.[5, 6, 7]

The NPS essentially offers subscription under specific categories such as central government employees, state government employees, corporate, unorganized sector, and individuals. However, the withdrawal clause varies based on the nature of the NPS subscription. Even though the nature of contribution varies across categories, for most, the withdrawal can be made upon retirement/resignation or by the nominee upon the death of the subscriber.

ATAL PENSION YOJANA

"*Atal pension Yojana*" (APY), targeted at the unorganized sector, was introduced in May 2015 by the government of India. Subsequently, the government stopped accepting fresh applications to the previously introduced "*Swavalamban Scheme*," and existing subscribers were offered an option to migrate to the APY. Much like the "*Swavalamban Scheme*," APY is available specifically to those in the unorganized sector who do not have access to pension schemes to encourage them to save voluntarily for their retirement. It is regulated by the PFRDA under the National Pension Scheme. Under this scheme the government will co-contribute 50 percent of the subscriber's contribution or INR1,000 annually, whichever is lower, to the subscriber's pension account.

Subscribers have the option to choose a fixed minimum pension of INR1,000 and multiples of INR1,000 thereafter, up to INR5,000 per month, upon reaching the age of 60 years. However, the pension benefit amount is subject to the amount of their contributions and ages at the time of enrolment. The subscriber has to contribute for at least 20 years to be eligible for the pension payout. The minimum entry age is 18 years, and the maximum entry age is 40 years. The minimum monthly contribution by subscribers is INR42 (less than USD1) for a person aged 18 and is expected to be affordable to the mass of the population. Subscribers also have the option to contribute monthly, quarterly, or yearly to the pension account. The minimum monthly pension income is guaranteed by the government of India, and, if the return of investments of the pension funds were to be higher, subscribers would be paid higher pensions.[8] However, in October 2017, the PFRDA Chairman Hemant G Contractor stated that, "less than 2 percent of the eligible population is covered under *Atal Pension Yojana*."[9]

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[4] https://npscra.nsdl.co.in/download/government-sector/corporate/Corporate-Brochure.pdf. Date accessed 2017.

[5] https://www.sbi.co.in/webfiles/uploads/files/1277123901568_NPS_FAQS.pdf. Date accessed 2017:

[6] https://www.india.gov.in/spotlight/national-pension-system-retirement-plan-all#nps1. Date accessed 2017.

[7] https://npscra.nsdl.co.in/download/NEW_WELCOME_KIT396945283.pdf. Date accessed2017.

[8] http://pfrda.org.in//MyAuth/Admin/showimg.cshtml?ID=760;http://www.pfrda.org.in/MyAuth/Admin/showimg.cshtml?ID=718. Date accessed 2017.

[9] http://www3.asiainsurancereview.com/News/View-NewsLetter-Article/id/40696/Type/eDaily/India-Regulator-in-major-drive-to-expand-pension-coverage. Date accessed 2017.

EMPLOYEES PROVIDENT FUND

Within the organized sector, employees with a basic monthly compensation of up to INR15,000 per month accumulate a combined 15.67 percent of basic component of salary, of which the employer contributes 3.67 percent, and the employee contributes 12 percent of the basic component of salary. However, employees who receive a monthly compensation greater than INR15,000 accumulate a combined 24 percent of basic component of salary, of which both the employer and employee contribute 12 percent each. It is mandatory for employers with a minimum of 20 employees to contribute towards the Provident Fund. The interest on the fund is decided by the Employees Provident Fund Organization in consultation with the government of India. Account funds are accumulated and employees generally receive it as a lump sum upon attaining retirement age.[10, 11]

SUPERANNUATION FUNDS

The Superannuation Funds (SAF) are voluntarily sponsored by an employer to provide retirement income to employees upon retirement. The scheme can be structured as either a defined contribution or a defined benefit, depending on the organization. Generally, in the case of a defined contribution plan, up to 15 percent of the employee's basic salary goes towards superannuation, and the tax benefit is capped at INR100,000. However, for defined benefit, the superannuation amount is usually calculated based on the employee's last paycheck. Upon the retirement of the employee, 50 percent–70 percent of the accumulated funds are annuitized with a life insurer, and the remaining 30 percent to 50 percent are distributed to the employee in a lump sum.

National Social Assistance Program

National Social Assistance Programme (NSAP) was introduced on 15 August 1995. NSAP provides financial assistance to poor households in the case of old age or the death of the primary worker. These schemes are targeted to beneficiaries who are a part of a household that is living below the poverty level as per the guidelines of the government of India. The Social Welfare Departments or the Rural Development Department of the States is primarily responsible to implement these key schemes:[12]

- Indira Gandhi National Old Age Pension Scheme (IGNOAPS): This scheme, introduced in November 2007, is targeted at individuals who are age 60 or above. Individuals up to age 79 receive a monthly income of INR200 per month, and people above age 80, receive INR500 per month. However, state governments have the option to contribute over and above the prescribed amount.
- Indira Gandhi National Widow Pension Scheme (IGNWPS): This scheme was introduced in February 2009 for widows age 40–59 years. Beneficiaries of this scheme receive a monthly income of INR400, of which half is paid by the state government.
- Indira Gandhi National Disability Pension Scheme (IGNDPS): Launched in February 2009, this scheme is for individuals age 18–59 years with severe or multiple disabilities. Beneficiaries of this scheme receive a monthly income of INR400, of which half is paid by the state government.
- National Family Benefit Scheme (NFBS): In case of the natural or accidental death of the primary earning member of the family (age 18–65 years), surviving members receive an assistance of INR10,000.
- Other Schemes: There are also other social schemes that are run by the state governments, payable due to old age, disability, or the death of the primary earning member of the family. These schemes have varying eligibility criteria and coverage.

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[10] http://www.oecd.org/els/public-pensions/PAG2017-country-profile-India.pdf. Date accessed 2017.

[11] http://jp.milliman.com/uploadedFiles/insight/2017/asia-retirement-report.pdf. Date accessed 2017.

[12] http://nsap.nic.in/nsap/FAQ_ON_NSAP_NEW.pdf. Date accessed 2017.

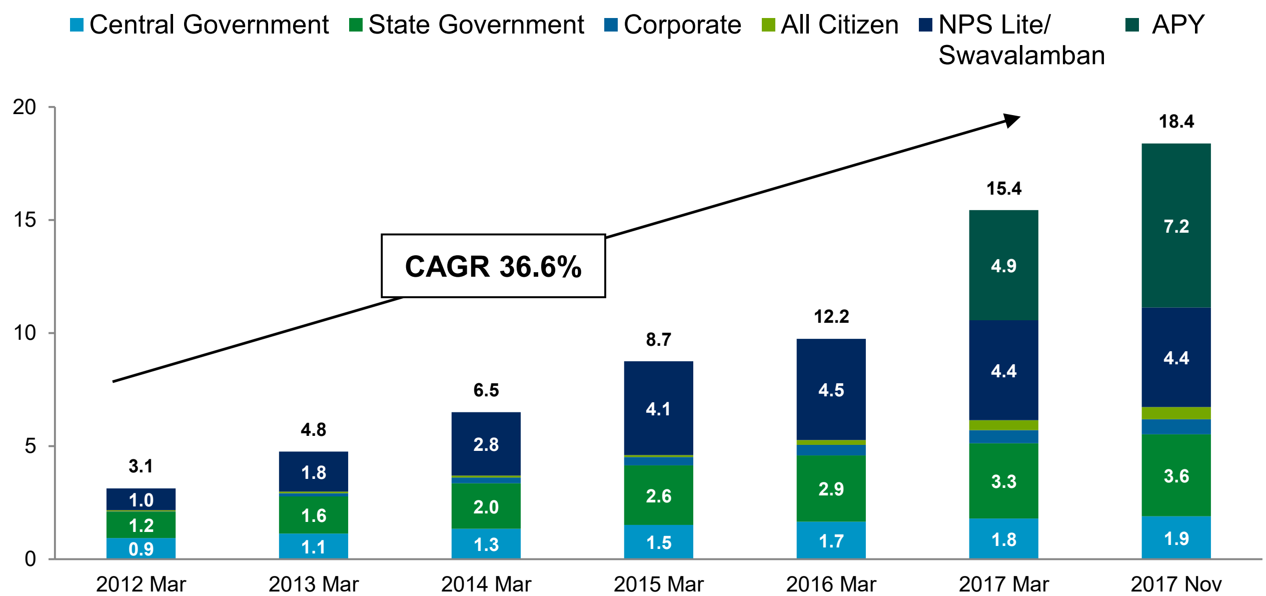
PUBLIC PROVIDENT FUND

The Public Provident Fund (PPF) Scheme is a tax-free savings plan introduced by the government in 1968. This is an investment option offered by the government not specific to retirement. The interest rate offered by the PPF is reviewed by the government periodically; as of 2016 – 17 the interest rate was 8.1 percent. The fund is primarily a 15-year plan that can be extended in five-year increments. The investment of deposits made in the PPF has tax benefits to the investor. In addition, the interest earned through PPF is also tax free.[13]

GRATUITY

Gratuity is paid as a lump sum by the employer to an employee for the years of services. Generally, it is paid upon retirement, except under certain exceptional circumstances including death, disability, or certain diseases. To be eligible for gratuity an employee has to complete five years of service with the organization. The amount of gratuity generally depends on years of employment and the compensation level. Organizations with at least 10 employees or more are generally covered under the Payment of Gratuity Act 1972 and use the following formula to arrive at the gratuity payment dues: (15 X last drawn salary X employment tenure) divided by 26. However, those employees who are not covered under the Gratuity Act can also receive gratuity from their employers, but the calculation of gratuity differs. It is usually (15 X last drawn salary X employment tenure) divided by 30.[14]

Figure 11 — Subscriber Base of Different Government Schemes (in Millions)



Source: PFRDA, Pension Bulletin Volume VI, issue XI, 2017.

[13] https://www.bankbazaar.com/saving-schemes/ppf.html, Dates accessed 2017.

[14] https://economictimes.indiatimes.com/wealth/invest/how-to-calculate-gratuity/articleshow/61913387.cms. Data accessed 2017.

As per India 2011 census data, only 12 percent of the working population was covered under pensions, possibly leaving almost 88 percent of the working population without any access to pensions. As most of the pension schemes were offered by the organized sector, a large majority did not have access to the pensions offered by the occupational pillar.

However, with the recent reforms and introduction of a few schemes for the unorganized sector, the situation has slowly started to change. The introduction of the schemes such as Swavalamban and APY have helped increase the subscriber base of pensioners under the PFRDA. In fact, between 2012 and 2017 subscribers of various pension schemes have grown by a compounded average growth rate (CAGR) of 36.6 percent. This growth is largely possible due to the growth of pension subscribers within the unorganized sector.

On a positive note, the enrolment in the unorganized sector grew at 54 percent CAGR during the same period. However, even after such rapid growth, given the small base of subscribers, a significant majority of the Indian population is still not covered under any pensions. It would take a prolonged period of such growth to make a significant difference.

Nevertheless, there are huge opportunities for insurers in the private space, as the market for private pension schemes is still in its infancy.

Sustainability of Pension Systems

The Pension Sustainability Index (PSI) of Allianz analyses the fundamentals of pension systems and the key changes that impact them. To arrive at a ranking that reflects the long-term sustainability of the pension system, Allianz analyzed 54 markets across the world, including India, based on an extensive list of parameters.

The PSI primarily uses the following three sub-indicators to measure the sustainability of a specific pension system:

- Demographic changes
- Public finances
- Design of the pension system

Figure 12 — 2016 Pension Sustainability Index*

Sub-indicators	Status (0.75)**	Dynamics (0.25)**
Demographics	Old-age dependency ratio (OAD)*	Change in OAD* until 2050
Pension system	Level of pension benefit from 1st pillar and coverage of workforce	Change in level of pension benefit
	Legal /effective retirement age	
	Strength of funded pillar and reserve fund (as % of GDP)	Reforms passed
Public finances	Pension payments / GDP	Change of pension payments / GDP until 2050
	Public indebtedness / GDP	
	Need for welfare support	

*Ratio of ≥ 65 years of age to 15 to 64 years of age.
**Weighting.

Source: Allianz Asset Management, International Pensions.

India ranks 48th out of the 54 markets included in the broad Pension Sustainability Index. Within the sub-parameters of the index, India ranks an impressive sixth in both public finance and demographics. Owing to a vibrant economy and a much younger demographic structure it has done remarkably well in two of the three key parameters. However, it ranks 54th, the last among all the markets, when it comes to its pension system.

Historically India has not had a comprehensive pension system covering the entire population. In the recent past, India has undertaken quite a few reforms and extended pension options to its citizens. Still, given the scale and the size of the population lacking coverage, it may take a while to include the entire working population under the scheme.

It is an area where both the private and the public system may need to come together to close the future retirement gap. As demonstrated, India is going through a rapid transition both economically and socially, and the challenges of urbanization, a younger population seeking jobs, and changing socioeconomic structures are altering the entire retirement landscape. India needs to act fast and create a comprehensive retirement structure to support its future elderly and avoid a looming disaster.

Table 4 — Ranking of Pension Sustainability Index, Asia — Allianz[15]

	TOTAL		Demographics	Public Finance	Pension System
	Score	World Ranking	World Ranking	World Ranking	World Ranking
Hong Kong	7.1	14	43	10	13
Singapore	6.6	24	45	18	29
S. Korea	6.5	33	53	11	25
Indonesia	6.2	39	7	7	50
Taiwan	6.2	40	54	17	26
Japan	5.8	46	52	50	18
India	5.8	48	6	6	54
China	5.0	53	44	24	51
Thailand	4.0	54	47	19	52

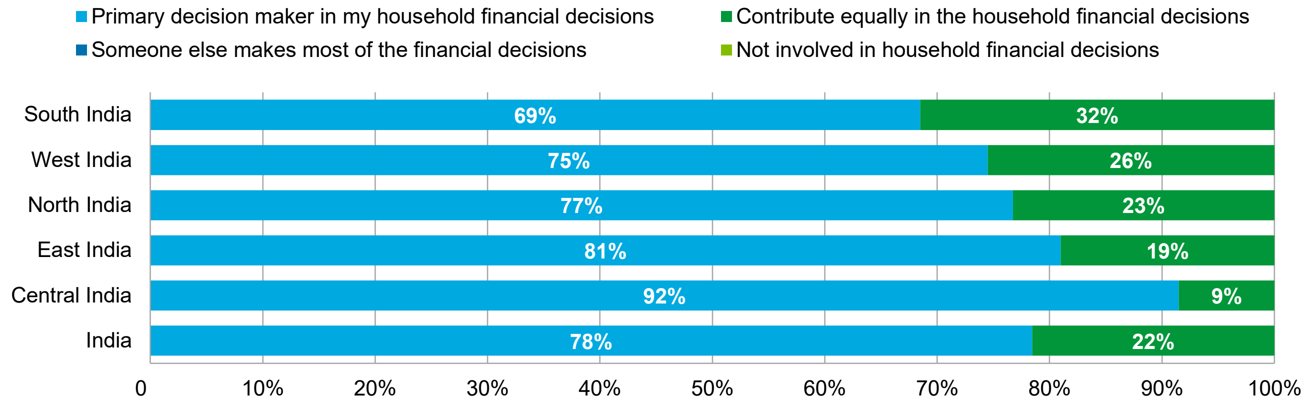
Note: The sub-indicators consider both the present status and future outlook to assign a score of 1–10 (1 being the lowest sustainability, and 10 being the highest sustainability). Only the markets covered in the study have been included in the table.

[15] https://projectm-online.com/app/uploads/Allianz_2016_Pension_Sustainability_Index.pdf. Data accessed 2017.

Retirement From the Consumer Perspective

This study surveyed decision makers or people who contribute to financial decision making to identify how they tackle the challenges of retirement.

Figure 13 — Respondents by Decision Authority



All of the markets covered in the study differ from one another. In fact, there may be huge cultural differences within a market. Historically, in the absence of pensions, most Indians depended on children and family for their retirement income, so family has an important contribution when it comes to retirement. Even though over the years Indians have gradually moved from a joint family structure to a nuclear family, the dependence of elderly parents on their children continues. More than half of the respondents indicate that their parents are financially dependent on them. This trend varies slightly across sub-regions, but it remains very strong in the Central and Eastern parts of India.

Table 5 — Financial Dependence

Responding to the question: *"Which of the following individuals are financially dependent on you?"*

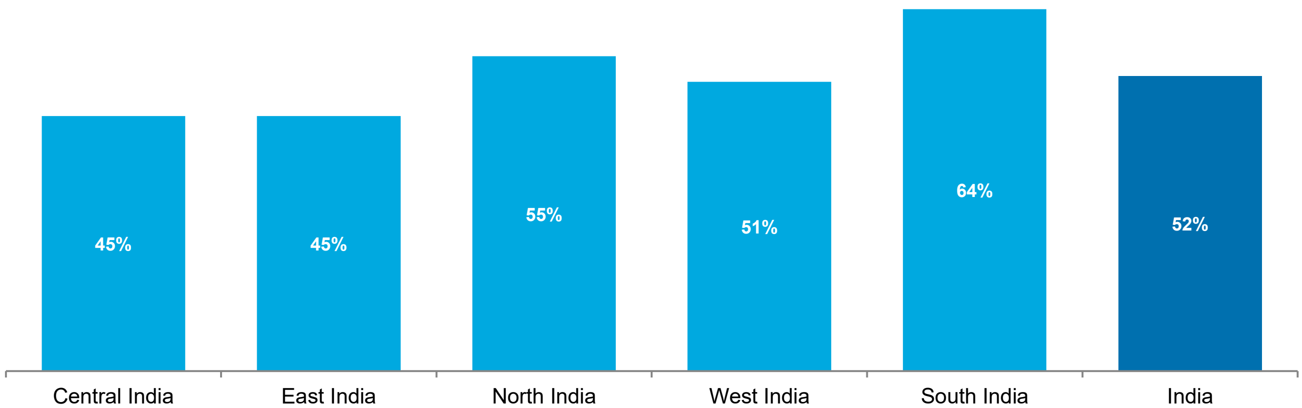
	India	Central India	East India	North India	West India	South India
Spouse	61%	62%	65%	63%	55%	59%
Child/Children	66%	68%	74%	64%	64%	62%
Own Parents (Father and Mother)	56%	65%	61%	48%	55%	50%
Siblings (Brother/Sister)	6%	6%	6%	7%	6%	6%
Spouse's Parents	13%	21%	14%	10%	9%	11%

It is a heart-warming scenario when offspring take care of an elderly parent, but to do that successfully over a longer period of time requires prudent financial planning. However, when we asked the respondents if they work with financial planners for household financial decisions, 52 percent of the respondents indicated that they do not. This tendency is stronger in the Southern regions of India, especially among the retirees (age 61–75 years) where 81 percent do not consult financial advisors for financial decisions. It also must be noted that the Southern states of India are the biggest buyers of gold, and possibly its inhabitants invest the majority of the savings in gold.[16]

More than half of the respondents do not work with financial professionals for household financial decisions.

Figure 14 — Do Not Work With Any Financial Professionals to Help With Household Financial Decisions

Responding to the question: *"Does your household typically work with any financial professionals to help with your household financial decisions?" Results represent respondents who answered "no."*



Only around 5 percent of the respondents have not done any retirement planning, possibly indicating high awareness of the necessity of planning for a financially stable retirement. The majority of respondents across all regions claim to have determined what their income is (especially among Southern and Northern India) and calculated their assets and investments. They have also taken steps to determine their post-retirement health expenses, an extremely important but often overlooked step. It is encouraging to note that the young workers (age 30–45) have been more active in determining their healthcare expenses.

Only 38 percent make an effort to learn more about available Social Pension benefits, making it the least frequently taken retirement-planning step. This finding may be explained by the fact that the majority of the "social pension" benefits are reserved for those living below the poverty level, and the survey respondents do not qualify for such benefits.

[16] http://www.livemint.com/Opinion/yLqLISrnY6OAt9xtH13rnM/Who-are-the-biggest-buyers-of-gold-in-India.html. Data accessed 2017.

Figure 15 — Initiatives on Retirement Planning

Responding to the question: *"Which of the following retirement planning activities have you done?"*

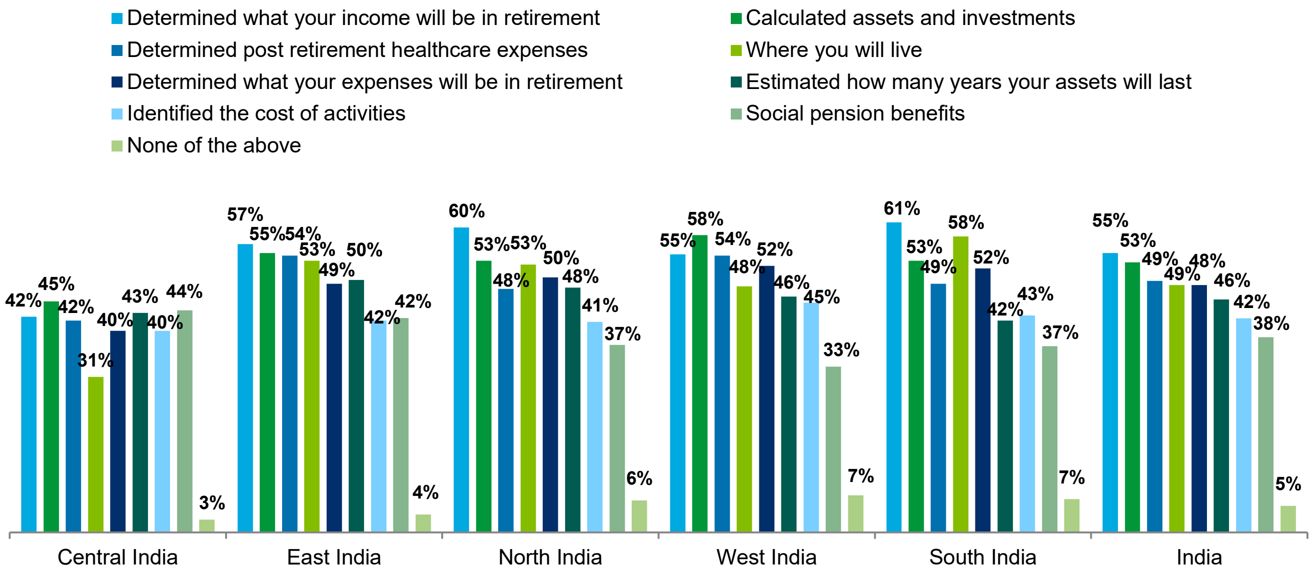
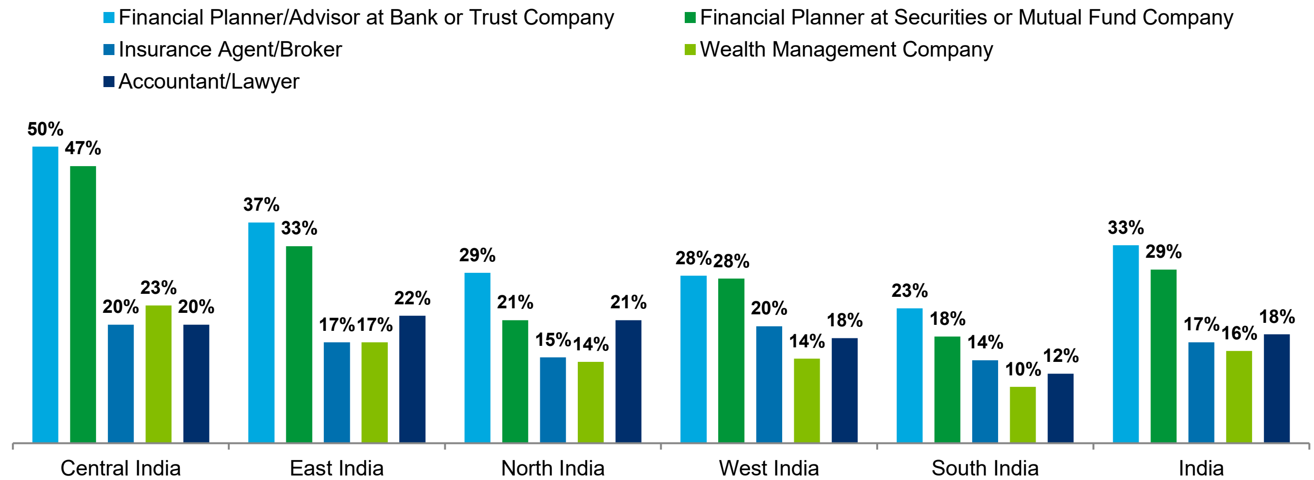


Figure 16 — Those Who Work With Financial Professionals, Work With…

Responding to the question: *"Does your household typically work with any financial professionals to help with your household financial decisions?"*

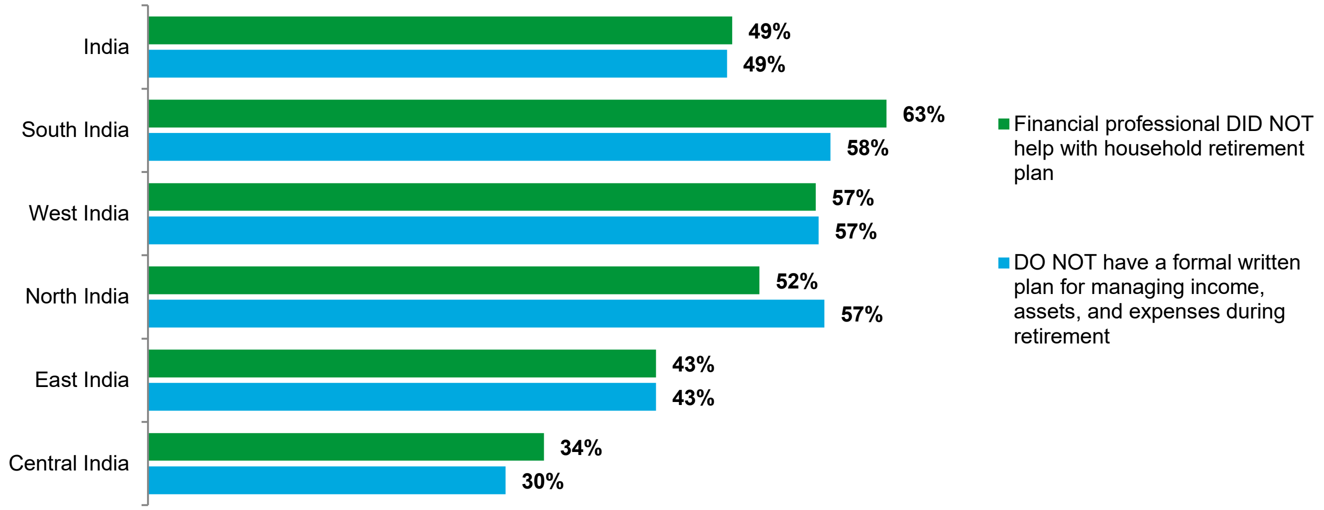


As mentioned earlier, a significant proportion of respondents do not reach out to financial professionals for financial decisions. However, among those who do, the greater number prefer to reach out to a financial planner/advisor at a bank, followed by a financial planner at a securities/mutual fund company, especially those in the Central and Eastern part of India. While not the most favored option, insurance agent/brokers garnered some interest in Western and Central India.

Almost half of the respondents do not work with financial professionals for household retirement planning.

Figure 17 — Retirement Planning

Responding to the questions: *"Does your household have a formal written plan for managing your income, assets, and expenses during retirement? Did a financial professional help your household create your plan?"*



Not only do the respondents not seek professional help for regular financial decisions, they also do not seek help from financial professionals on retirement planning. Almost half of the respondents did not seek help for a financial professional for their retirement planning. Forty-nine percent of respondents did not seek professional guidance for their retirement planning, and an equal proportion did not have a formal written plan for managing income, assets, and expenses during retirement. Among the different age bands, pre-retirees seem to have the least interest in consulting a financial professional for retirement planning or for creating a formal written retirement plan. Fortunately, though, young workers appear slightly more proactive about retirement planning and formulating a written plan.

Table 6 — Retirement Concerns and Actions — Agree With the Following Statements

Responding to the direction: *"For each of the following statements pertaining to your retirement concerns and actions, please indicate if you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree, or strongly disagree."*

	Central India	East India	North India	West India	South India	India
Confidence Benchmark						
I will be able to live the retirement lifestyle I want	91%	78%	80%	78%	80%	81%
I have enough savings to last until the end of my retirement	88%	66%	67%	66%	68%	71%
Need help						
I would like my employer to make available more comprehensive information and advice on retirement savings and planning	92%	79%	74%	73%	68%	76%
Action Statement						
I would be willing to purchase or plan to purchase a financial product that will provide guaranteed lifetime income	92%	84%	81%	79%	79%	83%
I am currently very involved in monitoring and managing my retirement savings	91%	81%	74%	75%	78%	80%
Challenge & Mindset						
I do not trust financial institutions with my money	54%	41%	31%	31%	28%	37%
It is rare to hear people talk about retirement planning in the workplace	85%	65%	60%	58%	55%	63%
I have/will inherit property from parents/relatives	80%	67%	56%	56%	53%	62%

Note: Above numbers represent summed-up options of "Somewhat Agree" and "Strongly Agree." The top-three options per market have been highlighted.

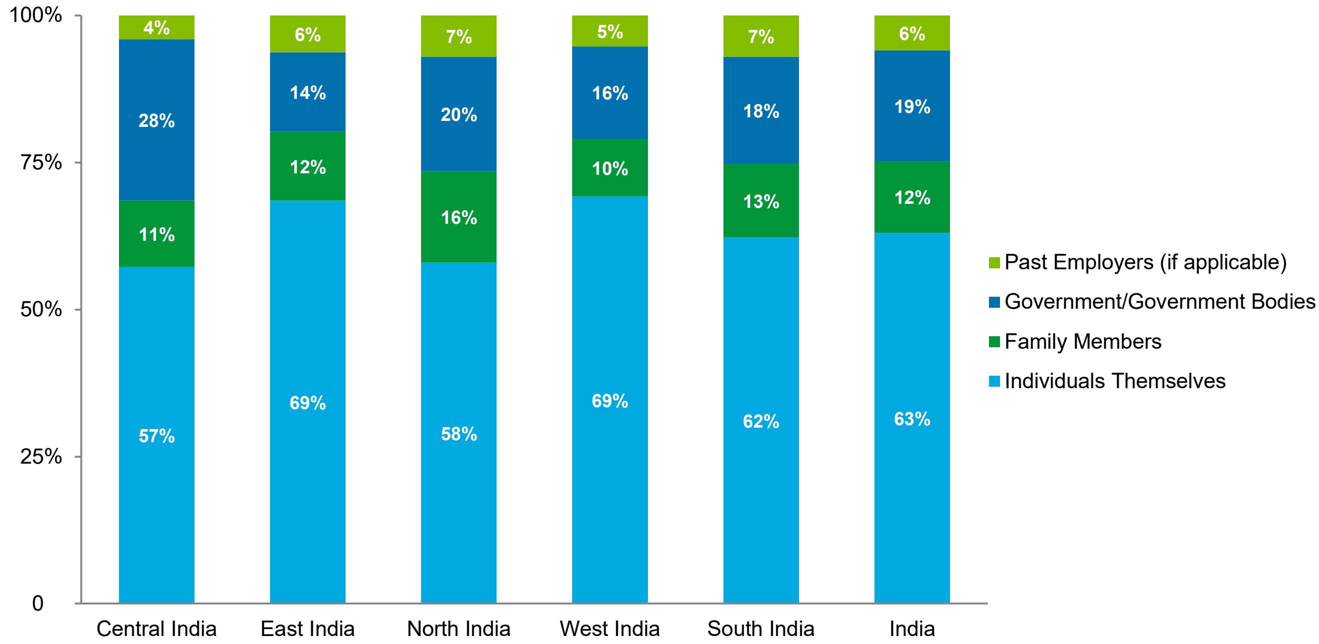
Most are willing to trust financial institutions; the level of trust is particularly high among young workers.

Most of the respondents are quite confident about their future retirement. Almost 80 percent of the respondents are confident about maintaining a similar lifestyle in retirement, and 71 percent believe they have enough savings to last through their retirement. The level of confidence is particularly high among retirees; either they have found a way to manage their expenses in retirement, or they can still rely on the younger generation for their expenses.

Generally, there are no major sub-regional differences when it comes to the perception of respondents across India, but the Eastern region was somewhat anomalous; the ability to lead a desired lifestyle did not rank among the top-three preferences within the region, and respondents also expressed their interest in having more information and advice on retirement savings and planning from employers.

It also must be noted that the majority across India have adequate trust in financial institutions on matters concerning their money, although Central India was possibly a slight aberration from the norm. This trust is evident in the fact that most are willing to purchase or plan to purchase a financial product that will provide guaranteed lifetime income. It is also encouraging to note that "young workers," the future of India, have much more trust in the financial institutions than retirees.

Figure 18 — Primary Responsibility for Providing Retirement Funds



Dependence on the government for income is quite low, especially among the younger generation.

Almost two thirds of the respondents across India consider it their own responsibility to fund their retirement, especially the respondents from the Eastern and Western parts of India. However, there is a slight difference across generations; the proportion of respondents who consider it their own responsibility is much higher among young workers (70 percent) compared to retirees (59 percent) and pre-retirees (60 percent). This points to a change in mindset, where the younger generation is willing to be proactive and take care of their future needs, without depending on the government. In fact, the proportion of the respondents who would like to depend on the government for their post-retirement income is also much higher among the older generation. Dependence on past employers is also seen at much lower levels across all sub-regions as the coverage of pensions is either not comprehensive or inadequate.

In line with their belief that it is their own responsibility to arrange retirement funds, many individuals are also arranging for funds to support retirement income.

In addition, even though most indicated that government should not be primarily responsible for providing retirement funds, a significant proportion of respondents indicated they will depend/are dependent on their personal savings and investments. Respondents indicated a high degree of interest in all possible options for creating income in retirement, with the exceptions of death of a family member and reverse mortgages, pointing to a recognition that a single income stream might not be sufficient. If individuals do not have adequate income like life insurance, rental from property, or employer pensions, 4 out of 5 will have to work either full time or part time to generate retirement income. This statistic is an early warning sign of danger to come.

Table 7 — Anticipated or Current Income Source in Retirement

Responding to the direction: *"Indicate which of the following sources of income your household currently receive: [IF WORKER] Indicate which sources of income you expect to receive during retirement."*

	Central India	East India	North India	West India	South India	India
Personal savings and investments	96%	96%	98%	97%	94%	96%
Life insurance	91%	92%	92%	89%	81%	89%
Social pension/Other local pension	90%	88%	86%	84%	78%	85%
Full/Part-time job earnings	83%	87%	84%	82%	78%	83%
Voluntary Enterprise Annuity/Voluntary plans set up by employer	84%	83%	80%	77%	68%	78%
Family member assistance (incl. children)	85%	75%	70%	72%	70%	74%
Rental property	84%	76%	69%	65%	68%	72%
Inheritance from death of a family member	77%	71%	59%	61%	49%	63%
Reverse mortgage	75%	61%	52%	51%	43%	56%

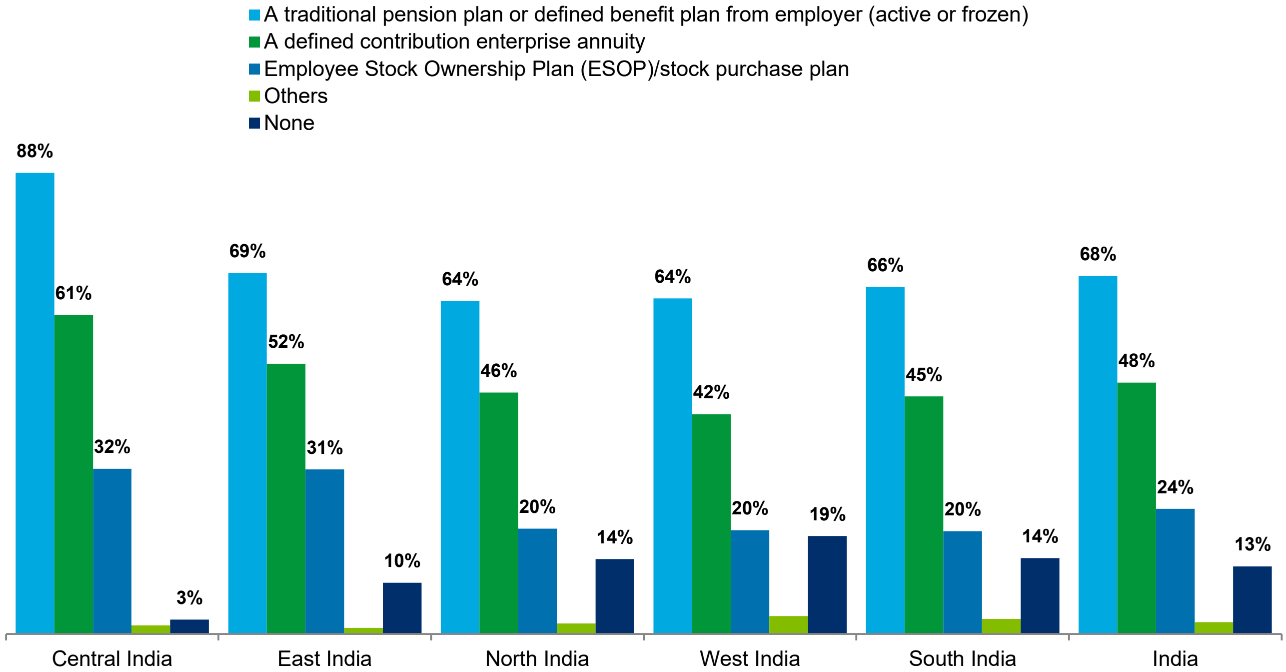
Note: Above numbers represent summed-up options of "Major Source" and "Minor Source" out of the overall options of "Major Source," "Minor Source," and "Not a Source."

Other local pensions included India: National Pension Scheme/Public Provident Fund.

Four fifths of the respondents indicated that they will depend on full/part-time job earnings to support their retirement; this is an early warning sign.

Figure 19 — Retirement Plan Available Through Current Employer, Work, or Profession

Responding to the question: *"Which retirement savings plans are available to you through your current employer, work, or profession?" Please select all that apply.*

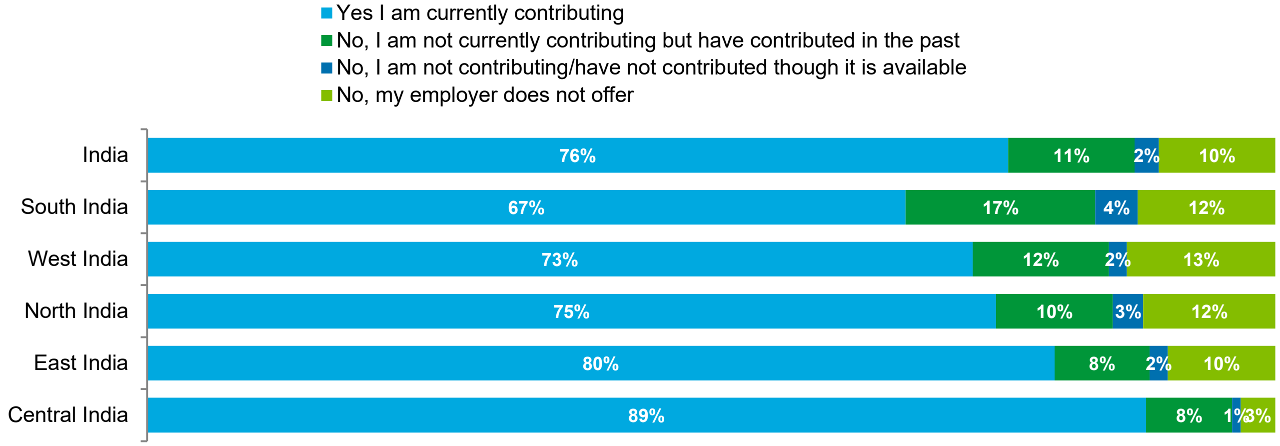


Definitions — Defined Benefit: A defined benefit plan is a retirement plan that an employer sponsors, wherein employee benefits are computed using a formula that considers factors such as length of employment and salary history. Defined Contribution: A defined contribution plan is a retirement plan in which the employee and/or the employer contribute to the employee's individual account under the plan. The amount in the account at distribution includes the contributions and investment gains or losses, minus any investment and administrative fees. The sponsor company generally matches the employee contributions. The defined contribution plan places restrictions that control when and how each employee can withdraw these funds without penalties.

Almost 70 percent of the respondents indicated they have traditional or defined benefit plans, and among respondents from Central India the proportion is 88 percent. Predictably, almost 81 percent of retirees indicated that they had a defined benefit plan. A lower proportion of respondents (48 percent) said they have/had a defined contribution plan. In addition, around one quarter indicated having a stock ownership plan as well.

Figure 20 — Currently Contributing or Have Contributed to Any Employer-Sponsored Retirement Savings Plans

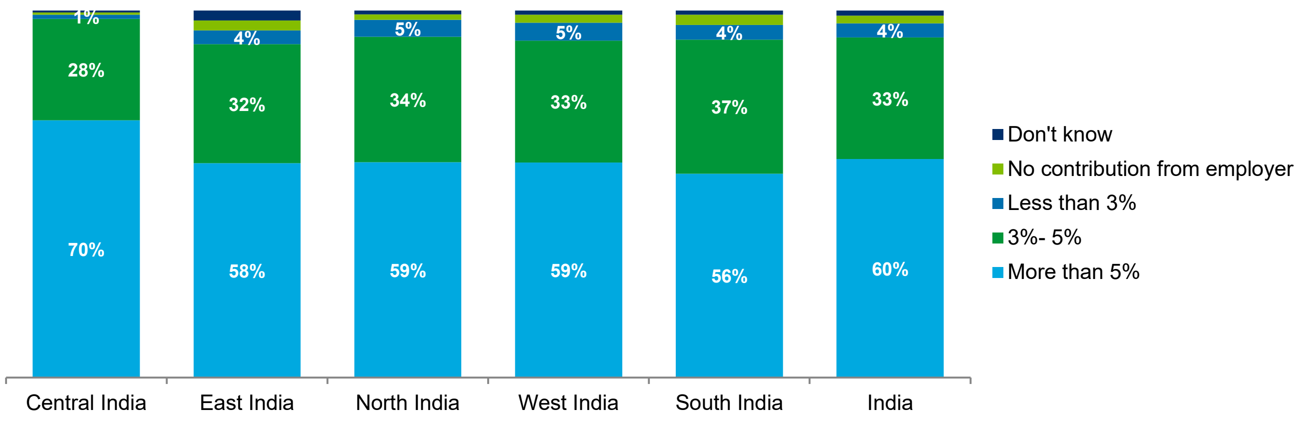
Responding to the question posed to those who are working full time for pay or are self-employed/family business: *"Are you currently contributing or have contributed to any employer-sponsored retirement savings plans, like an enterprise annuity (or provident funds)?"*



Across India, 76 percent of the respondents claimed to be contributing to a retirement savings plans. This is slightly higher compared to the Asia average of 59 percent. Respondents from Central India declared that they contributed the most at 89 percent, and only 67 percent from the Southern part of India claimed to have contributed towards employer-sponsored savings plan, making them the sub-region with the lowest rate of contribution. Since study respondents are somewhat financially well off, the finding is not an exact representation of the Indian population as a whole.

Figure 21 — Extent of Employer-Matching Contributions

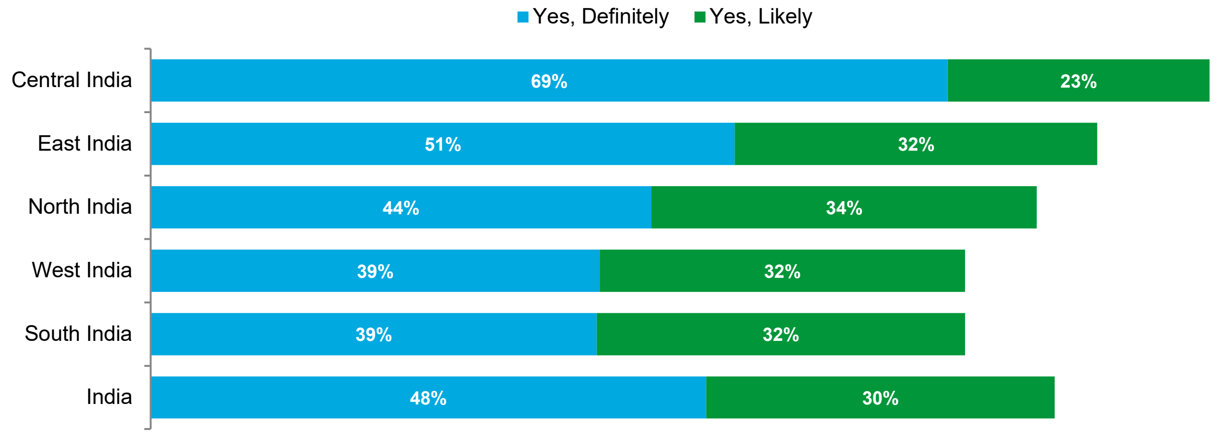
Responding to the question: *"At what level does your employer currently match your contributions to the defined contribution retirement savings plan(s) they offer (e.g., 50 cents on the dollar for the first 6 percent of pay contributed)?"*



Sixty percent of respondents revealed that they received an employer-matching contribution which is more than 5 percent of their pay, and 30 percent said that they receive a contribution of around 3 percent–5 percent of their pay. The overall range of individuals receiving matches of greater than 5 percent remained under 60 percent for most sub-regions, except Central India, which indicated that almost 70 percent of them received greater than 5 percent of matching contribution from their employers.

Figure 22 — Adequacy of Income From Employer-Sponsored Pension or Social Pension to Cover Basic Expenses in Retirement

Responding to the questions: *"Is the amount of income obtained from social pension and employer-sponsored defined benefit pension enough to provide for your basic living needs?" "Do you expect the amount of income obtained from social pension and employer-sponsored defined benefit pension enough to provide for your basic living needs in retirement?"*



Note: The answer options provided were, "Yes, Definitely," "Yes, Likely," "No, Unlikely," "No, Definitely Not," and "Don't Know." However, for ease of viewing only the options of "Yes, Definitely" and "Yes, Likely" are shown.

While the confidence level relating to employer-sponsored programs is extremely high, only 12 percent of the working population across India is covered under a formal pension system. Seventy-eight percent of the respondents said the income obtained from social and employer-sponsored defined benefit pensions is "definitely" or "most likely" enough to provide for their basic living needs, compared to 56 percent across Asia.

The likelihood that younger markets such as India are more optimistic or may lack an understanding of the financial challenges of old age may explain the high level of confidence in the pension systems' ability to provide basic living needs. Retirees and workers who believe income from pension and government-sponsored programs is enough to cover basic as well as aspirational living expenses in retirement may find expectations unmet as the cost of living rises with the standard of living in their home countries. India is still in early stages of its economic growth and is still catching up with modern standards of living and healthcare. So, this sense of retirement security may prove false for a "young" country like India.

Given the willingness of some respondents to accept responsibility for retirement planning and the multiple sources of retirement income that the respondents aspire to have, it's safe to say that consumers should have an appetite for investments to fund their retirement years.

Rental income from property is a popular mode of generating retirement income, apart from financial products.

Even though the preferred method to generate retirement income from investments varies across sub-regions, there is a strong preference towards financial products that provide guaranteed lifetime income and products with options to withdraw interest and dividend earnings, leaving the principal intact.

When compared across Asia, respondents across India expressed one of the highest levels of interest to buy or look for a product that will convert some or all of household savings into guaranteed lifetime income.

Perhaps surprisingly, a significant proportion of respondents across India's regional markets would like to invest in properties to generate rental income. This phenomenon is quite unique across the growing markets, perhaps due to an expectation of growth in real estate prices from spreading urbanization creating increased demand. However, reverse mortgages have not found too many takers across the region, possibly due to the current demographic structure, lack of awareness, or intention to pass on property to the next generation.

Table 8 — Method to Generate Income From Savings in Retirement

Responding to the question: *"Which of the following best describes how your household plans to generate income from your retirement savings?"*

	Central India	East India	North India	West India	South India	India
Withdrawal Preferences						
Withdraw some principal and some interest on a regular basis	37%	40%	29%	30%	31%	33%
Withdraw some principal and some interest on an occasional basis, or when needed	41%	42%	36%	35%	35%	38%
Withdraw only interest and dividend earnings, but not withdraw any principal	48%	53%	56%	54%	52%	52%
None. My household has no intention of using retirement savings for income	3%	6%	7%	5%	6%	5%
Interest in buying properties or annuities for income or growth						
Buy or look for a product that will convert some or all of household savings into guaranteed lifetime income	42%	42%	43%	42%	40%	42%
A corporate annuity with a tax benefit	34%	34%	33%	28%	32%	32%
Invest retirement savings in property and generate rental income	45%	49%	44%	42%	47%	45%
Opt for a reverse mortgage	23%	20%	14%	16%	11%	17%
Don't know	1%	2%	3%	4%	3%	3%

Note: The top -three results per market have been highlighted for easy reference.

In addition to identifying investment preferences, it is also important to understand when consumers plan to retire and if their savings are sufficient to fund their needs in retirement. The retirement industry also needs to understand the consumer perspective on length of time needed to save for retirement, how many years consumers expect retirement to last, and if consumers correctly estimate their life expectancies at age 60.

Across the sub-regions of India, the time spent on retirement planning differs only marginally from market to market. Most respondents generally start saving for retirement around the age of 38 and spend approximately 24 years preparing for retirement. Respondents from Central India started preparing for retirement a bit late at the age of 42 years and spent around 23 years saving, much like the other regions of India.

However, they plan to retire a bit late at 65 years age compared to the India average of 62 years. It is also interesting to note that, within the retiree segment (age 61–75 years), those who did not retire at age 60 plan to work till age 71 years. This finding suggests that that if retirement planning is not done prudently, people may have to extend their working lives, much like the earlier finding that respondents will work full/part time for income in retirement.

Respondents from the retiree segment (age 61–75 years), who could not retire, had to extend their working lives and plan to retire/retired at the age of 71 years.

Figure 23 — Retirement and Retirement Planning

Responding to questions: *"At what age do you expect to retire/How old were you when you retired?" "At around what age will/did you start saving/investing for retirement/At around what age did you start saving/investing for retirement?"*

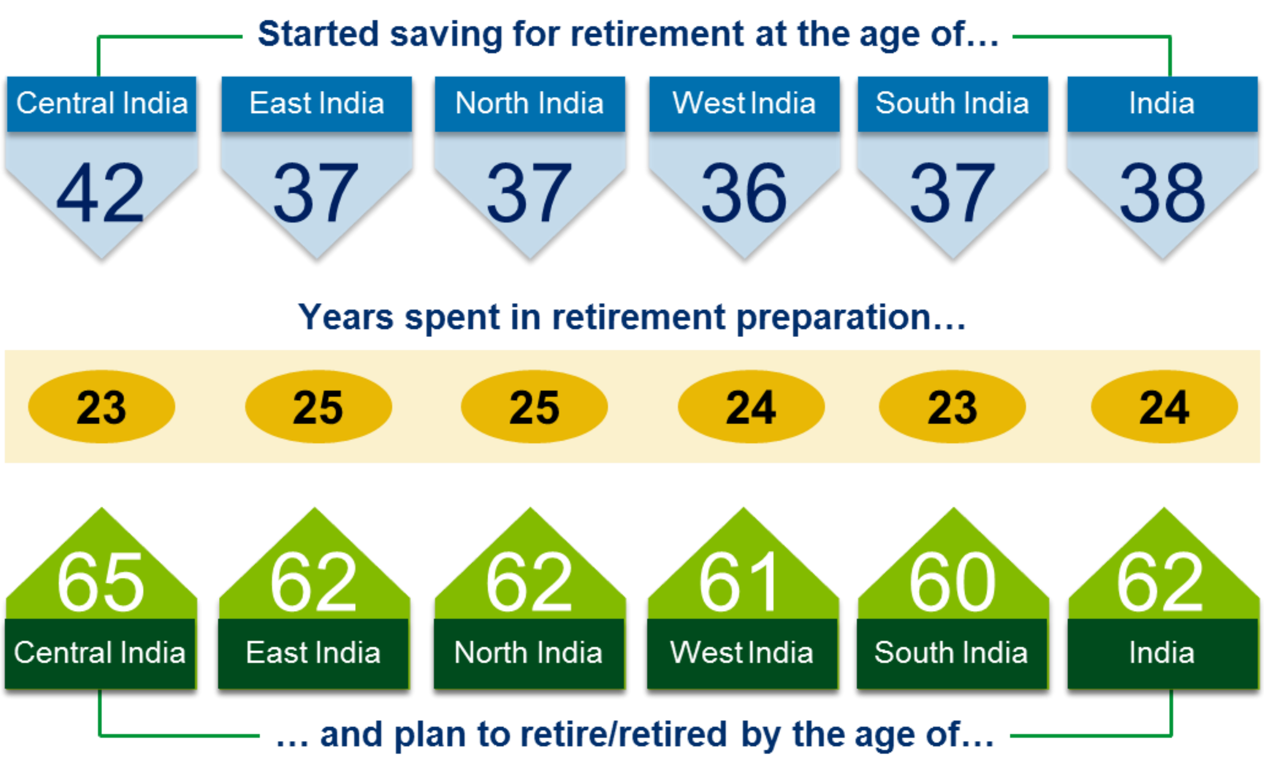


Figure 24 — Regret Delaying Saving for Retirement

Agree with: *"I regret I started saving and investing for retirement a bit late OR I have not started saving for retirement at all."*

Almost 6 out of 10 respondents regret they started saving late for retirement or did not start saving at all.

Not only do respondents regret delaying retirement planning, they also expect a huge gap in retirement funds when they turn age 60 (Figure 25). Almost 6 out of 10 respondents regret delaying saving for retirement or not having started saving for retirement at all. This proportion is even higher in Central India, which earlier indicated signs of being more active in taking initiatives with respect to retirement planning. The fact that the senior segments of retirees express regret at a higher rate (63 percent) than the younger respondents serves as a reality check and indicates that individuals often miscalculate how much and how long they need to save and invest, only to realize at a later age that they have not saved enough.

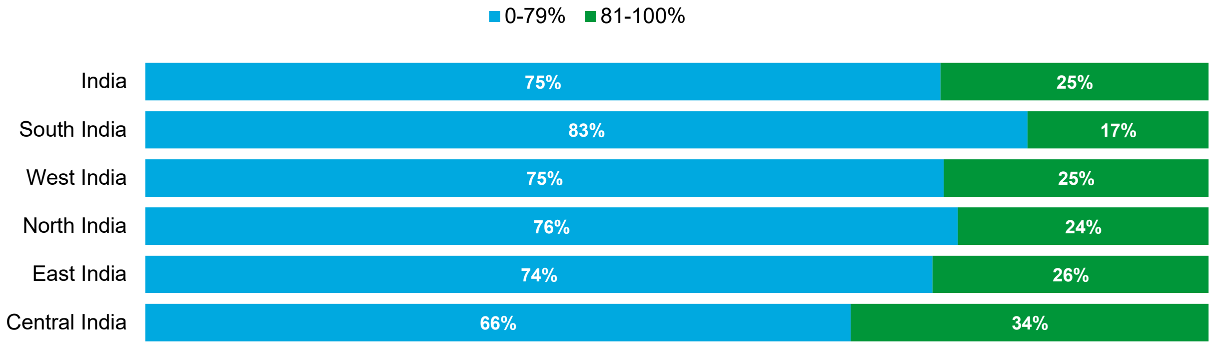
In addition, a significant 75 percent of the respondents across India anticipate a gap in retirement funds when they turn age 60, and only around 25 percent of respondents expect to have more than 81 percent of the funds they need to lead a comfortable retired life. Respondents from the Southern part of India expect a much wider gap in the retirement funds compared to the other parts of India. Worryingly, among the young workers, only 21 percent believe they will be able to accumulate more than 80 percent of the funds required to sustain a comfortable retirement life. However, on a positive note, respondents from India did not underestimate their life expectancies, unlike other markets. Most across India expect to live an additional 24.3 years beyond retirement at 60 years, compared to the 19.1 years[17] estimated by the UN Population Division.

At least 75 percent anticipate a gap in retirement funds when they turn age 60.

[17] For comparison, 2035 – 2040 data has been used from UN Population Division 2017 data, considering the age band and quota used in the study.

Figure 25 — Anticipated Gap in Retirement Funds

Responding to questions: *"What percentage of total retirement funds (that you may need to sustain a comfortable retired life) do you anticipate to have when you turn age 60?" "What percentage of total retirement funds (that you may need to sustain a comfortable retired life) did you anticipate you would have when you turned age 60?"*



In addition, most respondents across India are expecting a looming gap in retirement funds upon turning age 60; they are facing unique challenges and have valid reasons to be concerned about retirement (Table 9). Most respondents across India are worried about a decline in interest rates and that the value of savings and assets might not keep up with inflation. In addition, they are also worried about tax increases and healthcare costs exceeding their social insurance medical supplements. As a growing economy, India is more worried about the economic risks than the longevity or public-policy risks. Worries about declining inflation and interest rates are likely driven by events in past years.

There were not many sub-regional differences across India when it came to major concerns regarding retirement. Paying healthcare expenses remains a top concern across most parts of India. Respondents are quite worried about paying healthcare costs not covered by their social insurance medical supplements. Past research has demonstrated the validity of these concerns. In fact, 60 percent of an individual's lifetime healthcare expenses occur in old age, specifically after the age of 65.[18] Another cause for worry, especially when considered in the context of some retirees' needing to work, is the concern that employment in retirement may be hard to find.

Declining interest rates and a decline in the value of assets due to inflation remain top concerns in retirement.

[18] Health Services Research: 2004.

Table 9 — Key Concerns in Retirement

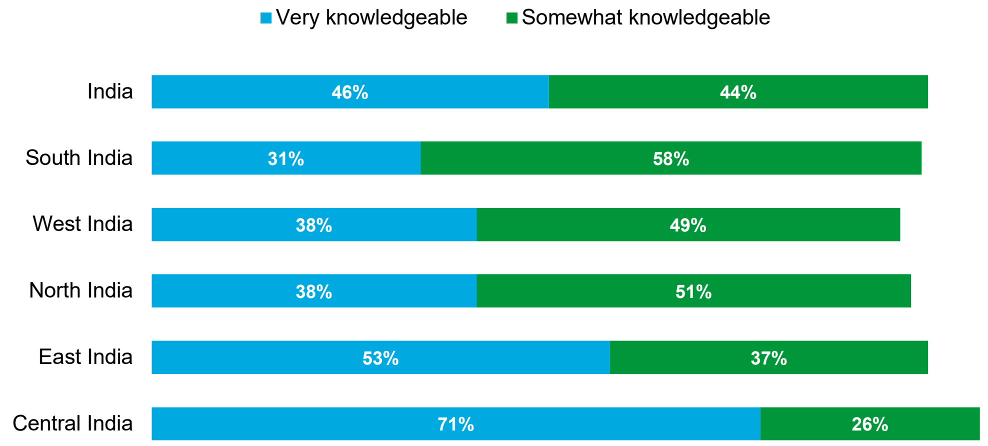
Responding to the questions: *"How concerned are you about each of the following?" "How concerned are you about each of the following during retirement?"*

	Central India	East India	North India	West India	South India	India
Longevity risks						
Providing for your spouse/partner if you should die first	86%	88%	85%	83%	73%	83%
The possibility that you or your spouse/partner will outlive your assets	86%	85%	79%	78%	66%	79%
Providing for yourself if your spouse/partner should die first	84%	85%	81%	79%	68%	79%
Healthcare/Long–term care risks						
Providing for healthcare costs beyond social insurance medical supplement	91%	92%	89%	92%	84%	89%
A chronic Illness may drain my lifelong savings	89%	91%	90%	88%	81%	88%
Finding available long-term care/nursing home care	86%	90%	84%	84%	77%	84%
Public policy risks						
Aging society will make it harder for the government to provide for the elderly	87%	87%	85%	85%	81%	85%
The government or company will reduce health or medical insurance benefits	91%	91%	88%	85%	80%	87%
The government or company will reduce social pension	87%	88%	81%	78%	75%	82%
Economic and market risks						
Tax increases	90%	92%	91%	89%	85%	89%
A decline in interest rates	88%	94%	91%	92%	87%	90%
A prolonged stock market downturn	85%	83%	76%	78%	71%	79%
The value of savings and assets might not keep up with inflation	90%	92%	91%	91%	85%	90%
Legacy/Family related and other concerns						
Inability to find or maintain employment in retirement	87%	85%	78%	78%	68%	79%
Not yet started planning for retirement	69%	76%	73%	70%	63%	71%
You might not be able to leave money to your children or other heirs	85%	83%	74%	71%	68%	76%
My child/children may not take care of me and my spouse during retirement	84%	76%	74%	68%	59%	72%
My child/children are NEETs group (neither go to college nor go to work and remain financially dependent on parents as adults)	83%	70%	64%	60%	55%	66%

Note: The top-three results per market have been highlighted for easy reference. In cases where the third-ranked concern had similar results with the subsequent concerns, those have been highlighted too.

Figure 26 — Self-Assessment on Knowledge of Investments or Financial Products

Responding to the question: *"In general, how knowledgeable do you think you are about investments or financial products?"*



Note: Respondents were offerred four options: "Very knowledgeable," "Somewhat knowledgeable," "Not very knowledgeable," "Not at all knowledgeable." The above results represent "Very knowledgeable" and "Somewhat knowledgeable."

Most respondents across India generally acknowledge their responsibility for generating their own retirement incomes. However, they do not seek outside retirement-planning advice from professionals, even though the need for a good understanding of investments or financial products seems strongly indicated. Based on their self-assessments, almost 9 out of 10 respondents across India claimed to be fairly knowledgeable about investments or financial products (Figure 26).

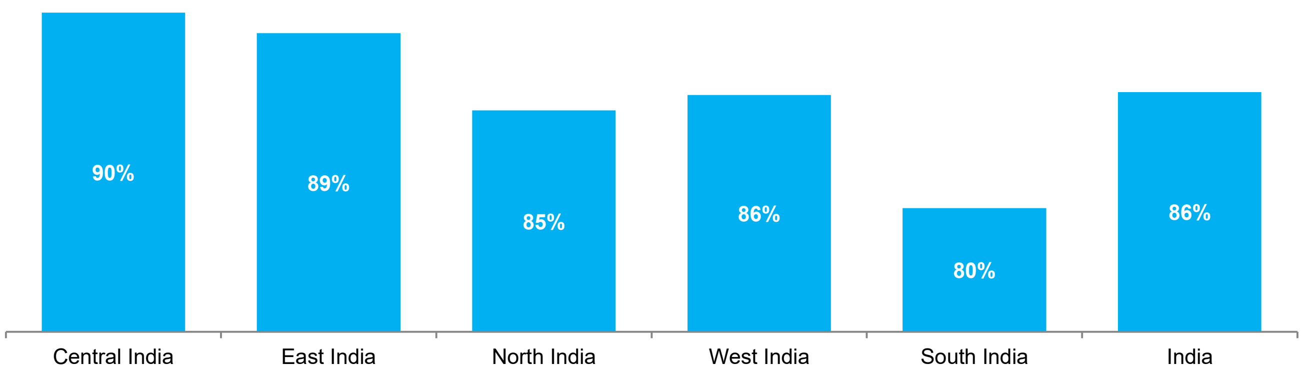
While it is possible that they are aware of the investment options they may have in the market, that awareness is a long way from having the ability to understand, analyze, and invest in products that may help them over the long term. However self-serving their claims, consumers are apparently somewhat confident about making investment decisions on their own, especially in Central India where 97 percent of respondents claim to be knowledgeable about investments and financial products.

Consumers across India generally expressed a high level of confidence in their ability to make financial and investment decisions, and 86 percent expressed their willingness to convert a part of their assets to annuities to generate retirement income (Figure 27). Respondents, particularly from Central and Eastern India, expressed strong interest in annuities.

In fact, the level of interest shown by India (86 percent) to convert a part of their assets into annuities is the highest across the markets covered in the study, compared to the average level of interest (71 percent) for all Asia (including India). In addition, on the brighter side, younger respondents expressed a much higher level of interest (92 percent) in annuities compared to the older counterparts. This augurs well for both future retirees and the Industry. There is huge opportunity for the market to tap onto unmet needs.

Figure 27 — Willingness to Convert a Portion of Assets Into an Annuity to Provide a Lifelong Income Stream

Responding to the question: *"Annuities can provide a lifelong income stream in exchange for a premium payment. Individuals usually no longer have access to the assets used to pay for the annuity once it is purchased. Would you consider converting a portion your assets or an additional portion of your assets into a lifetime-guaranteed annuity in retirement?"*



Note: Above results show people who responded "Yes."

Figure 28 — Interest in Buying a Tax-Deferred Annuity

Responding to the question: *"A tax-deferred annuity is a product issued by a life insurance company that allows you to save money for retirement. Taxes on earnings are not paid until you retire and begin withdrawing money from the annuity. Annuities also offer the ability to convert the balance into monthly income payments for life. If such products were available in your market, how interested would you be in purchasing one?"*

Note: Above results represent responses of "Very interested" and "Extremely interested." Respondents were offered the following options: "Not at all interested," Somewhat interested," "Very interested," and "Extremely interested."

Respondents also expressed interest in deferring their tax payments through a tax-deferred annuity (Figure 28). The general level of interest in tax-deferred annuities was quite high across all respondents. Overall across India, 61 percent expressed Interest in a tax-deferred annuity, with Central India exhibiting the most interest and Southern India expressing the least.

Table 10 — Preferred Method to Obtain Information on Investments, Financial Products, or Retirement Planning

Responding to the question: *"Where do you obtain information on investments, financial products, or retirement planning?"*

Methods/ Channels	Central India	East India	North India	West India	South India	India
Internet/financial websites	35%	59%	60%	62%	65%	56%
Family, friends, or co-workers	34%	48%	60%	57%	63%	52%
Website with information on my specific retirement account	35%	42%	44%	39%	45%	41%
Books, magazines, and newspapers	32%	40%	41%	40%	46%	40%
My own financial advisor/planner/insurance agent	30%	36%	41%	45%	39%	38%
Social media/networking websites	37%	39%	37%	33%	38%	37%
Representatives from the company managing my employer's defined contribution retirement savings plan	34%	29%	33%	31%	30%	32%
Television or radio programs	27%	32%	34%	28%	33%	31%
Employer (Human Resources)	26%	33%	36%	28%	30%	30%
Workshops and/or seminars	30%	27%	23%	24%	25%	26%
Booklets, pamphlets, or other written materials provided by employer	27%	25%	23%	22%	29%	25%
Mobile apps	27%	23%	20%	18%	21%	22%

Note: This is a multiple choice question.

Digital channel/methods, and family, friends, or co-workers are the primary source of information on investments, financial products, or retirement planning.

Given the combination of the consumers' strong need and high interest, it is of paramount importance for the financial industry to refine its focus and work with the government and other partners to create and deliver affordable products to help address the anticipated retirement-funding gap. To this end, this study identifies retirement-planning behaviors and product preferences.

Well before consumers make the decision to buy annuities/other financial products for retirement income, they have already reached out to different sources for information about investment options and related product features (Table 10). It is very important for the industry to deliver easy to understand, easily accessible information, especially for a market like India where the majority are planning for retirement on their own. It is critical that the information be accurate and help lead consumers to take action for a positive retirement outcome.

Digital channels have emerged as one of the most popular sources of information for the respondents, with 56 percent reaching out to financial websites for their information needs. The industry needs to rethink how they may want to share retirement-planning product information, apart from the traditional method of television/radio or newspapers. Respondents to this online survey by definition have Internet access and are at a financial level where they are good candidates for purchasing financial products for retirement.

Table 11 — Usefulness of the Information Gathered From Different Channels or Methods

Responding to the question: "Which information source did you find the most useful?"

Methods/ Channels	Central India	East India	North India	West India	South India	India
My own financial advisor/planner/insurance agent	14%	21%	20%	25%	16%	19%
Internet/financial websites	8%	22%	19%	20%	22%	18%
Family, friends, or co-workers	9%	8%	14%	13%	17%	12%
Website with information on my specific retirement account	11%	9%	11%	11%	9%	10%
Representatives from the company managing my employer's defined contribution retirement savings plan	11%	6%	7%	7%	8%	8%
Employer (e.g., Human Resources or Benefits Department)	8%	10%	9%	3%	6%	7%
Workshops and/or seminars	14%	5%	5%	6%	5%	7%
Social media/networking websites	8%	7%	5%	4%	3%	5%
Books, magazines, and newspapers	3%	4%	3%	4%	7%	4%
Mobile apps	7%	3%	3%	4%	2%	4%
Booklets, pamphlets, or other written materials provided by my employer	6%	4%	2%	3%	3%	3%
Television or radio programs	1%	2%	2%	2%	1%	2%

Note: Respondents were allowed to choose only one option.

Interestingly, even though financial advisor/planner/insurance agents were not preferred as the first choice for product information, they emerged as the most useful channel of information. These professionals are trained individuals and are expected to have strong product knowledge and deliver it in a way that is clear and easy to understand. The finding suggests the value of the human touch and a face-to-face conversation cannot and should not be ruled out.

Even though the contribution of financial advisors/planners/insurance agents to deliver information is valued, the industry needs to rethink how to help consumers find the right product and deliver information in a way that generates greater confidence.

Information from financial advisor/planner/insurance agents are considered the most useful. The industry needs to rethink how to make the most of its resources and communicate information effectively.

Respondents were asked to share their preferences, aside from issues of cost, for features of financial products or investments that could be used to create income in retirement. Not surprisingly, they demonstrated an affinity to more conservative product features — features that would give them predictable returns and help preserve capital. Perhaps also unsurprisingly, consumers showed strong preferences for guaranteed income for life, protection of principal investment, and fixed returns. There was also a keen interest in having greater control over their investments and having the ability to adjust their portfolios to their needs as these changed over time.

In addition, respondents from India had earlier expressed their concern related to increasing tax or inflation that may degrade the value of assets. When it comes to product features, they clearly expressed their interest in products that have "income that is adjusted for inflation" and products with a "tax benefit" to counter possible increases in taxes. The Eastern region also expressed interest in products where income will continue after the death of the primary applicant. Respondents from Northern India expressed interest in products that allow a change in income as needs change.

Also of note, consumers do not show a very strong preference on premium structure; however, level premium structure was marginally preferred over single premium or stepped-up premium.

Across markets, consumers indicated a preference for more conservative product features.

Table 12 — Most-Preferred Product Features

Responding to the question: *"Aside from issues of cost, when selecting among financial products or investments that could be used to create income in retirement, which of the following features are most important to you?"*

	Central India	East India	North India	West India	South India	India
Guaranteed lifetime income						
Income that is guaranteed for life	75%	69%	73%	73%	73%	72%
Income will remain the same or fixed throughout retirement	65%	55%	56%	57%	52%	57%
Income will continue after I die or my spouse dies	69%	61%	66%	60%	57%	62%
Guaranteed returns on investments	75%	70%	71%	73%	74%	72%
Income flexibility						
Income has the potential for growth with market	68%	61%	63%	66%	65%	65%
Income amount can be changed as needs change	67%	57%	63%	57%	54%	60%
Income that is adjusted for inflation	70%	58%	62%	66%	62%	64%
Income can be converted into a lump sum	68%	55%	53%	51%	51%	56%
Capital/Principal preservation						
Initial investment amount is preserved or protected	70%	64%	65%	64%	65%	66%
Control over investments & flexibility						
Control over how investments are managed	70%	61%	58%	63%	63%	63%
Tax benefit	70%	65%	65%	65%	67%	66%
The ability to make withdrawals in excess of regular payment	68%	54%	57%	49%	45%	54%
Option to withdraw entire money as lump sum and manage on your own	66%	55%	52%	50%	51%	55%
Premium structure & other features						
Money for heirs or charities when I die	65%	47%	45%	45%	44%	49%
Single premium	63%	51%	48%	43%	37%	48%
Level premium	67%	47%	50%	46%	44%	51%
Stepped-up premium	65%	46%	45%	42%	42%	48%
Option to receive predefined lump sum or annuity payment in foreign currency (e.g., USD, AUD)	62%	46%	40%	40%	35%	44%

Note: The following options were given to the respondents: "Not at all important," "Somewhat important", "Very important," "Don't understand feature." The above results are the precentage of respondents who selected "Very Important." Also note that the top six are highlighted in blue.

Definitions — Single Premium: An insurance plan in which a lump sum of cash is paid up front to guarantee payment to beneficiaries. Level premium: Level-premium insurance is a type of term life insurance for which the premiums remain the same throughout the duration of the contract. Stepped-up premium: Insurance premium is calculated on policyholder's age, meaning the younger they are the lower the cost and premiums, and premiums will increase over time.

Table 13 — Top-Four Channels for Retirement Income Products

Responding to the question: *"If you were to buy a product with the features you selected, from where would you like to buy it?"*

	Central India	East India	North India	West India	South India	India
1	Bank	Bank	Bank	Bank	Bank	Bank
2	Broker/ financial advisor	Broker/ financial advisor	Broker/ financial advisor	Broker/ financial advisor	Broker/ financial advisor	Broker/ financial advisor
3	Mobile apps	Insurer's website	Insurer's website	Insurer's website	Insurer's website	Insurer's website
4	Phone call	Insurance aggregator's website	Agent/Tied agency	Agent/Tied agency	Agent/Tied agency	Agent/Tied agency

The top-product features selected by respondents were quite similar across most sub-regions with one or two exceptions. Most of the preferred product features were designed to fulfill basic needs, and some were reflective of either unique needs across life stages or unique personal needs (Table 12). Not surprisingly, offline channels were dominant across all sub-regions, but it was perhaps surprising to observe banks emerge as the most preferred channel to buy retirement products, well ahead of the usually popular channel of agents. In fact, online channels also were quite preferred. With the growing Internet penetration of India, online channels may gain further popularity (Table 13).

Maintaining physical health and well-being remains a top priority among most.

However, through all of these products investments and concerns each of the respondents have their unique objectives to achieve in their retirement lives. Top priority among the respondents was to maintain good health and well-being. For majority of Indians, home has a very important emotional value; that's why they chose to spend of the rest of their lives in their current residences. Most would also like to spend their sunset years closer to family and would like to be a part of their group/activity/community for retired persons. Not many preferred to move into a community for retired persons or into a nursing home.

Table 14 — Important Aspects of Retirement Life

Responding to the question: *"Many people have specific hopes and aspirations for their retirement. How important is it for you to do each of the following in retirement?"*

	Central India	East India	North India	West India	South India	India
Maintain my physical health and well-being	74%	70%	81%	76%	74%	75%
Spend more time with friends and family	71%	60%	65%	61%	56%	63%
Financially support my family	68%	58%	59%	59%	53%	59%
Remain living in my current residence	67%	54%	59%	52%	50%	56%
Get involved with some type of group/activity/community for retired persons	64%	51%	49%	48%	41%	50%
Learn a new skill/hobby	63%	48%	44%	49%	41%	49%
Travel more	62%	48%	44%	45%	33%	46%
Save up for leaving a legacy	61%	46%	46%	43%	36%	46%
Move into a community for retired persons	57%	37%	35%	32%	25%	37%
Move into a nursing home	54%	34%	28%	21%	14%	30%

Note: The table reports selection of the "Very Important" option out of the overall options: "Not at all important," "Important," and "Very important."

Industry Opportunities

The industry has a significant opportunity — and responsibility — to help address the looming retirement-funding gap with the products and features identified in this study. Insights from this consumer research point to major opportunities that the financial services industry can explore. Some of them are as follows:

- **Responsibility:** Almost two thirds of the respondents across India consider it their own responsibility to fund their retirement. In fact, the young workers (70 percent) own up to that responsibility slightly more than retirees (59 percent) and pre-retirees (60 percent). Minds are changing, and the younger generation is willing to be proactive and take care of their future needs, without depending on the government or family members. This indicates that respondents are eager to make choices that will help them in planning for retirement. The industry needs to seize this opportunity and help individuals build retirement funding.
- **Retirement Planning:** Almost half of the respondents did not seek help from a financial professional for their retirement planning, and a similar proportion did not have a formal written plan for managing income, assets, and expenses during retirement. Among the different age bands, pre-retirees seem to have the least interest in consulting a financial professional for retirement planning and developing a formal written plan. The industry, along with other stakeholders, needs to step in and educate future retirees on how to plan for retirement and how they could make best use of available resources.
- **Key Aspiration:** Top priority among the respondents was to maintain good health and well-being. For the majority of Indians, home has a very important emotional value. That's why they chose to spend the rest of their lives in their current residences. Aside from that, most would like to spend their sunset years closer to family and would like to be a part of a group/activity/community for retired persons. These goals are not too difficult to achieve, provided they start saving for their retirement prudently and at the right stage of their lives.
- **Procrastination:** Even though most consider retirement planning their own responsibility, they procrastinate. Almost 6 out of 10 respondents regret delaying saving for retirement or not having started saving for retirement at all. Most do not end up taking any or adequate action. This proportion is even higher for Central India, which had indicated signs of being more active in taking initiatives with respect to retirement planning. The fact that the senior segments of retirees regret more than the younger respondents serves as a reality check. It also indicates that individuals often miscalculate how much and how long they need to save and invest, and at a later age realize what they saved isn't enough. They certainly need some advice from professionals who can guide them.
- **Retirement Funding Gap:** A massive 75 percent of the respondents across India anticipate a gap in retirement funds when they turn age 60, and only around 25 percent of respondents expect to have more than 81 percent of the funds they need to lead a comfortable retired life. Respondents from the Southern part of India expected a much wider gap in the retirement funds compared to the other regions. Worryingly, among the young workers, only 21 percent believe they will able to accumulate more than 80 percent of the funds required to sustain a comfortable retirement life. A gap this huge presents a significant opportunity for the industry to improve its share of business in a relatively untapped market with massive potential. However, on a slightly positive note, respondents from India did not underestimate their life expectancies, unlike other markets.

- **Willingness to Buy Annuities:** Eighty-six percent of the respondents across India expressed their willingness to convert a part of their assets to annuities to generate retirement income. Respondents, particularly from Central and Eastern India, expressed strong interest in annuities. In fact the level of interest shown by India is the highest across the markets covered in the study. The average level of interest towards converting a portion of assets into an annuity to provide a lifelong income stream was 71 percent for overall Asia (including India), compared to 86 percent for India. Also on a brighter note, the younger respondents expressed a much higher level of interest (92 percent) in annuities, compared to their older counterparts. This augurs well for both the future retirees as well as the industry. There is an important opportunity for the market to tap into the unmet needs.
- **Preferred Products Features:** Respondents indicated an affinity towards more conservative product features — features that would give them predictable returns and help preserve capital. Respondents showed strong preferences for guaranteed income for life, protection of principal investment, and fixed returns. There was also a keen interest in having greater control over their investments and having the ability to adjust their portfolios to their needs as these changed over time. When it comes to product features, they clearly expressed their interest in products offering "income that is adjusted for inflation" and products with a "tax benefit" to counter possible increases in taxes. It is important to understand individual requirements based on life stages and offer products based on personal earnings, aspirations, and needs. India, although a young country now, will soon be on the path to becoming an aging society. Now is the critical time to take action — for individuals, the industry, and other stakeholders.
- **Preferred Channels to Buy:** Face-to-face channels were the most preferred mode to buy retirement products across all sub-regions. It was perhaps a little surprising to observe banks emerge as the most preferred channel to buy retirement products, well ahead of the usually popular channels of agents. In fact, online channels also were highly preferred; with the growing internet penetration of India, online channels may gain further popularity. However, in the near term, insurers and other financial institutions may do well to strengthen their partnerships with banks or look for newer partnerships with banks.

Appendix

This study is an extension of the China retirement study of 2015 – 16 that was a collaboration between the Society of Actuaries (SOA) and LIMRA and is targeted to uncover the challenges faced by other selected markets across Asia. It aims to provide insights into consumer perceptions of retirement across nine major regional Asian markets, including Hong Kong, India, Indonesia, Japan, Singapore, South Korea, Taiwan, Thailand, and China. The study also provides an overall regional average. This report is primarily focused on India.

Table A-1 — Respondents by Working Status

Responding to the question: *"Are you currently …?"*

	Central India	East India	North India	West India	South India	India
Working full time for pay	46%	87%	86%	87%	78%	77%
Retired and working part time for pay	20%	5%	6%	6%	9%	9%
Retired and not working for pay	35%	8%	8%	7%	14%	14%

Table A-2 — Respondents by Employer Type

Responding to the questions: *"Of the following, which best describes your employer/From what type of employer did you retire?"*

	Central India	East India	North India	West India	South India	India
The government	44%	13%	8%	4%	7%	15%
An institution controlled by the government (public sector)	35%	11%	9%	9%	10%	15%
A private company (enterprise)	20%	73%	81%	85%	78%	67%
Other, please specify	1%	3%	2%	2%	5%	3%

Table A-3 — Respondents by Household Size

Responding to the question: *"What is your household size?"*

	Central India	East India	North India	West India	South India	India
1 to 2 persons	3%	9%	12%	16%	14%	11%
3 to 4 persons	14%	53%	49%	55%	55%	45%
5 to 6 persons	44%	31%	30%	26%	24%	31%
7+ persons	40%	7%	10%	4%	7%	13%

Table A-4 — Respondents by Gender

Responding to the question: *"Are you?"*

	Central India	East India	North India	West India	South India	India
Male	8%	40%	52%	48%	62%	42%
Female	92%	60%	48%	52%	38%	58%

Table A-5 — Respondents by Urban/Rural

Responding to the question: "*How would you describe the place you live?"*

	Central India	East India	North India	West India	South India	India
Rural	24%	15%	5%	9%	8%	12%
Urban	76%	85%	95%	92%	92%	88%

Note: Answer options of "Metro City" and "Tier One City" have been marked as "Urban." "Town and Village" has been marked as "Rural." The options were chosen by respondents based on self-selection.

Table A-6 — Respondents by Pre-tax Total Annual Income

Responding to the question/direction: *"Which of the following ranges describes your household's pre-tax total annual income. Please include any income from employment earnings, investments, interest, dividends, social security, pensions, etc.?"*

	Central India	East India	North India	West India	South India	India
INR100,001 - INR200,000	18%	14%	3%	6%	6%	9%
INR200,001 - INR350,000	10%	9%	11%	12%	14%	11%
INR350,001 - INR900,000	30%	39%	35%	48%	42%	39%
INR900,001 - INR2,500,000	39%	25%	35%	28%	30%	31%
INR2,500,001+	3%	13%	16%	7%	8%	9%

Table A-7 — Respondents by Current Housing Situation

Responding to the question: *"What is your current housing situation?"*

	Central India	East India	North India	West India	South India	India
I own my apartment or house	94%	87%	78%	87%	78%	85%
I rent from a landlord	2%	5%	14%	7%	15%	9%
Live with parents, other family members, friends, or other	4%	7%	9%	5%	7%	6%
Others	-0-	1%	-0-	1%	1%	1%

Table A-8 — Respondents by Level of Education

Responding to the question: *"Which of the following best describes your highest level of education?"*

	Central India	East India	North India	West India	South India	India
High school or less	12%	5%	1%	2%	-0-	4%
Technical/vocational school	1%	1%	-0-	2%	1%	1%
Two or three years of college/Associate's degree	2%	2%	2%	3%	1%	2%
College graduate/Bachelor's degree	9%	22%	29%	34%	42%	27%
Graduate school/Master's degree	63%	64%	63%	59%	52%	60%
Doctoral degree/Ph.D.	13%	6%	6%	2%	3%	6%
Others	1%	-0-	1%	-0-	1%	1%

Table A-9 — Sub-region Detail: India

Responding to the question: *"Which of the following regions are you from?"*

North	South	East	West	Central
Delhi	Kerala	Assam	Goa	Madhya Pradesh
Rajasthan	Karnataka	Manipur	Gujrat	Chattisgarh
Uttar Pradesh	Tamil Nadu	Meghalaya	Maharshtra	
Uttrakhand	Andhra Pradesh	West Bengal		
Haryana		Orissa		
Punjab		Sikkim		
Jammu & Kashmir		Mizoram		
Himachal Pradesh		Tripura		

Note: Respondents chose the region by themselves..

Acknowledgments

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